SALES AND EXCISE TAXATION IN INDIA

WALTER R. MAHLER, JR.

ORIENT LONGMAN LIMITED
BOMBAY MADRAS CALCUTTA NEW DELHI

ORIENT LONGMAN LIMITED

Regd. Office :

HAMILTON HOUSE, 'A' BLOCK, CONNAUGHT PLACE, NEW DELHI 1

Regional Offices :

NICOL ROAD, BALLARD ESTATE, BOMBAY 1

17 CHITTARANJAN AVENUE, CALCUTTA 13

36-A MOUNT ROAD, MADRAS 2

3/5 ASAF ALI ROAD, NEW DELHI 1

PUBLISHED BY W. H. PATWARDHAN, ORIENT LONGMAN LTD. 3/5 ASAF ALI ROAD, NEW DELHI 1 PRINTED IN INDIA BY NATIONAL PRINTING WORKS, 10 DARYAGANJ, DELHI 6

PREFACE

For an underdeveloped country, the Indian taxation system is extremely sophisticated and complicated. It has a relatively effective system of direct taxation; including taxes on income (both corporate and personal), wealth, gifts, estates, and; until recently, expenditure. Since the Kaldor report on direct tax reform in India (1956), and the subsequent legislation, there has been a considerable amount of scholarly interest in the Indian direct tax system. Many books, numerous dissertations and hundreds of articles have presented us with a rather thorough analysis of most aspects of direct taxation in India.

On the other hand, Indian indirect taxation (which continues to account for about 75% of total tax revenue) has been largely neglected as a subject of scholarly concern. While some attention has been given to import and export taxation, very little attention has been given to excise and sales taxation. Excise taxation is by far the most important tax at the Union level (accounting for about 50 percent of the total Union tax revenue); while sales taxation is the most important tax at the State level (accounting for about 49 percent of State tax revenue). In light of the practical importance of these taxes, the scholarly neglect they have suffered seems inexplicable. No books have been published concerned solely (or primarily) with excise taxation in India.[1]

The extent of the scholarly neglect of sales taxation in India may be indicated by the fact that the best over-all discussion of sales taxation is still the section of Volume III of the *Report of the Taxation Enquiry Commission*,[2] written in the early 1950's. In 1954 a monograph entitled *Sales Tax in India* was written by A.B. Ghosh.[3] This was a fairly competent (although somewhat limited and sketchy) descriptive account of sales taxation in India. Both of

[1]A Government of India report entitled: *Report of the Central Excise Reorganisation Committee* was issued in 1963. While it is primarily concerned with administrative reforms, it provides some useful analysis and information concerning other aspects of excise taxation.

[2]Department of Economic Affairs, Ministry of Finance, New Delhi, 1955

[3]Ranjit Printers and Publishers, Delhi, 1954

these studies have been seriously out-dated by the numerous changes in the various sales tax systems since their publication. Unfortunately, subsequent discussions of sales taxation in India have been largely content with repeating the arguments (and even the phraseology) found in the *Report of the Taxation Enquiry Commission.* While a number of sales tax enquiry committees in various States have provided useful information, there have not been any satisfactory discussions of this material or any attempt to discuss sales taxation in India as a whole. In brief, one would have a hard time refuting Sunil Ranjan Sarkar's statement that "there is hardly any Indian literature of worth exclusively dealing with principles and practice of sales tax in India...."[4] Moreover, excise taxation in India has received even less scholarly concern than sales taxation.

This study starts with an introductory section which provides some background on the objectives of taxation in India. The tax structure of the Central and State Governments is described and the relative importance of the various taxes is discussed.

The study is divided into three main parts. First there is a general discussion of commodity taxation and its place in the overall tax system of an underdeveloped country. In Part I the impact of commodity taxation on equity, work incentives, savings and inflation, tax awareness, income elasticity and the shifting and incidence of commodity taxes are discussed.

The second part of the study discusses the Union excise system in India. Both its evolution and is present nature are discussed. Combined with the descriptive account is a critical analyses of the policy objectives and suggestions for simplification and rationalization of the present excise system.

The third part of this study is concerned with State sales taxation in India. In Section 1 there is a brief discussion of the various types of sales taxation and their respective advantages and disadvantages. Section 2 presents a history of sales taxation in India and emphasizes those problems which were more or less common to all of the sales tax systems. More specifically, this Section is primarily concerned with the problem of

[4]"Applications of Statistics to Some Problems Of Sales Tax," *Indian Economic Journal*, Vol. 4, (January, 1957), p. 265

inter-state sales taxation and the impact of sales taxation on exports. Section 3 describes the present sales tax systems of the various States and Section 4 discusses the different State sales tax policies in regard to exemptions; Section 5 discusses the different State sales tax policies in regard to rates and turnover limits. Section 6 describes the purchase taxes which supplement sales taxes in some of the States. In Appendix A, brief consideration is also given to State Excise Taxes (which are levied solely on liquor and narcotics).

A few comments on the scope of this study may be desirable. In many ways it would have been desirable to study all forms of "commodity" taxation in India. Import and export taxation is conceptually similar to sales and excise taxation, and it provides a considerable amount of revenue. However, the taxation of exports and imports raises some additional problems which are probably worthy of books in their own right.

The scope of this study might also have been extended to include motor vehicle taxes, entertainment taxes and electricity duties. It might even have been extended to include stamp taxes, business license taxes and registration and filling fees. In other words, 'transaction' taxes as well as 'commodity' taxes might have been included. Moreover, it might have been desirable to include some discussion of government 'fiscal monopolies' and government enterprises, the profits (or losses) of which have a number of similarities to commodity taxes. Comparisons among these many types of indirect or 'commodity' taxes would be fruitful; but it would have made this study too diffuse and cumbersome. Thus, not without some reluctance, the scope of this study was restricted to sales and excise taxes.

It should be kept in mind that any observations with respect to excise or sales taxes are apt to suffer at times from the difficulties inherent in treating a subject in an isolated manner, when in reality it is but a part of a wider interrelated context. No single type of tax can be adequately appraised by itself. Whatever its merits or faults, they alone provide no satisfactory conclusion as to its usefulness or desirability. Any tax must be examined as a part of an entire tax structure. Its effects and burdens, assuming you can identify them and measure them, must be considered along with the effects and burdens of the other important taxes in the

system. Ultimately, what are most important are the effects of the total tax system, and not the effects of any single tax. What may be thought of as a fault in a particular tax, may become insignificant when considered in terms of the total tax system.

Moreover, it should be remembered that taxation is only one of the instruments through which fiscal policy attains its ends. There are two other major instruments of fiscal policy: (1) public borrowing (which, together with the income from public assets and taxes comprises the public revenue sector) and (2) public expenditures. To ascertain the extent to which many fiscal policy objectives are attained it is necessary to consider government expenditure as well as government taxation.[5]

In the preparation of this study, the author spent a year in India. The author is indebted to scores of individuals who aided his research during this period. Numerous officials in the Finance Ministry, the Planning Commission, the Federation of Indian Chambers of Commerce and Industry, the National Council of Applied Economic Research, and the Indina Institute of Public Administration were helpful in many ways, not the least of which was the provision of unpublished data and research facilities. The author is deeply grateful to a number of sales tax commissioners and members of their staffs, who patiently explained some of the intricacies of their respective sales tax systems.

The author is very grateful to Mr. S. Bhoothalingam, Director General of the National Council of Applied Economic Research, for discussing with the author the recommendations which he made in the Bhoothalingam Committee Report. The author also is very grateful to Dr. Pritam Singh, Director of the National Council of Applied Economic Research, who read parts of the manuscript and made helpful criticisms. The author wishes to thank Dr. J.N. Khasla, Director of the Indian Institute of Public Administration, for all the assistance he provided during the author's stay in New Delhi.

Special thanks are owed to Professors Jesse Burkhead, Jerry

[5]Since this study is primarily concerned with the effects of taxation, and gives very little attention to the effects of public expenditures, it should be regarded as a partial equilibrium analysis. For a discussion of the desirability of considering equity in terms of public expenditure, as well as in terms of the tax system, see Part 1, Section D of this study.

Miner and Irving Swerdlow for their encouragement, advice and suggestions. Finally, the author wishes to express his gratitude to the Economics Department, the Graduate School of Syracuse University, and the New York State Regents who generously supported the author in his research with an NDEA Fellowship and a Lehman Fellowship.

This book is a slightly altered version of the authors Ph.D thesis submitted to Syracuse University, in 1969.

Notes:

1. Coverage of sales taxes does not include Union Territories other than Delhi
2. 1 crore = 100 lakhs = 10,000,000
3. All data before 1947-48 refers to pre-partition India (includes Pakistan)
4. Burma is included in all data before 1937-38.

Finally the author would like to thank Miss Romila Gopalan and Miss Shyamala Gopalan for their editorial assistance. The author also wishes to express thanks to Mr. Verma of the Indian Institute of Public Administration for typing the first draft of this study.

The recommendations in this study are those of the author, who assumes full responsibility for any errors of fact or interpretation.

WALTER R. MAHLER, JR.

CONTENTS

PART I

PART II
EXCISE TAXATION

PART III

SALES TAXATION

Introduction

A. Objectives of Excise Taxation

The most important concern of fiscal policy in general, and of taxation policy in particular, in underdeveloped countries is with economic growth. However, policy makers in these countries, like their counterparts in the developed countries, must consider a variety of economic objectives. Not only economic growth, but also full employment, stable prices, efficient allocation of resources, a satisfactory distribution of income and a proper balance of payments may be desired. Moreover, non-economic goals and values (such as stable domestic relations, and promotion and preservation of culture) must be considered. If anything, as the following lengthy list of objectives of excise taxation in India indicates, the goals and uses of taxation policy in underdeveloped countries are even more complex and diffuse than they are in developed countries.

At one time or another, various government documents or speeches of public officials have put forward all of the following objectives of excise taxation:

1. raise revenue
2. reduce domestic consumption in general
3. reduce domestic consumption of specific goods —luxuries
4. raise revenue from those who cannot be reached by direct taxation
5. encourage exports
6. hasten monetization of the economy
7. restrain inflation
8. redistribute income
9. broaden coverage to make tax system more stable
10. help to allocate resources

11. tax commodities absorbing scarce factors needed in the public sector
12. tax those industries which have made large profits because of government licensing or tariff policies
13. reduce the excessive profits of middlemen
14. assist village and small-scale industry by means of exemption from excise taxation or preferential rates
15. use it as a measure of economic assistance to individual units and whole industries in time of distress
16. impose taxes (or raise the rates) on those commodities on which increased incomes are likely to be spent
17. tax those indigenous industries which have developed under a protective tariff wall so as to replace the loss of customs revenue on imports
18. discourage mechanization and sustain (or enhance) the present level of employment in an industry
19. keep down the costs of collection by taxing only commodities that yield significant revenue.

In general in underdeveloped countries there tends to be relatively more emphasis on economic growth than on stabilization, and more emphasis on productivity and practicality of taxes than on equity. It is also more likely that taxation will be used as a device to allocate resources rather than attempt to be 'neutral'.

It is important to note that while much of the theory of taxation is concerned with economic neutrality, much of the practice of excise taxation in India is concerned with 'interventionism'. In developed countries it is generally felt that the best contribution a tax system can make to growth is to maintain as much neutrality as possible among different incomes and expenditures. In this way the market will allocate economic resources efficiently among alternative

uses.[1] In India, on the other hand, the market tends to be looked upon as an inefficient allocator of resources. Hence, it has been deemed desirable to use excise duties to alter consumer preferences and the allocation of factor resources in a wide variety of ways.

In India there is almost no concern with neutrality of economic effect and impact as an objective of a satisfactory tax system. While some importance is given to the equity of the tax system, over-riding importance is given to raising revenue. This combination of placing an over-riding importance on raising revenue and almost complete neglect of neutrality considerations has led to an *ad hoc* growth of the excise tax system, culminating in the frequently irrational, unwieldy excise system of today.

B. Tax Structure Under the Constitution

The Constitution of India closely follows the pattern of division of tax powers between the Centre and the States established by the Government of India Act, 1935. While Article 246 provides for a two-fold distribution of subjects between the Union and the States, it also provides for a field of concurrent jurisdiction.

Taxes within Union jurisdiction are enumerated in List I, Seventh Schedule of the Constitution, as follows:

1. Taxes on income other than agricultural income.
2. Corporation tax.
3. Customs duties.
4. Excise, except on alcoholic liquors and narcotics.
5. Estate and succession duties other than on agricultural land.

6. Taxes on the capital value of assets (exclusive of agricultural land) of individuals and companies.
7. Rates of stamp duty in respect of certain financial documents.
8. Taxes other than stamp duties on transactions in stock exchanges and future markets.
9. Taxes on sale or purchase of newspapers and on advertisements therein.
10. Taxes on railway freights and fares.
11. Terminal taxes on goods and passengers carried by railway, sea or air.
12. Taxes not specifically enumerated in the State or Concurrent Lists.

Taxes within the jurisdiction of the States are enumerated in List II, Seventh Schedule of the Constitution, as follows:

1. Land revenue.
2. Taxes on the sale and purchase of goods, except newspapers.
3. Taxes on agricultural income.
4. Taxes on land and buildings.
5. Succession and estate duties in respect of agricultural land.
6. Excise on alcoholic liquors and narcotics.
7. Taxes on the entry of goods into a local area.
8. Taxes on mineral rights, subject to any limitations imposed by Parliament.
9. Taxes on the consumption or sale of electricity.
10. Taxes on vehicles, animals and boats.
11. Stamp duties except those specified in the Union List.
12. Taxes on goods and passengers carried by road or inland waterways.
13. Tolls.
14. Taxes on professions, trades and callings, and employment.
15. Capitation taxes.
16. Taxes on advertisements other than advertise-

ments in newspapers.
17. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.

C. Indian Tax System in Brief

Before proceeding with a detailed discussion of the Indian excise and sales taxes, it might be useful to give some indication of the relative importance of the other taxes in India at both the Union and State levels. For an underdeveloped country, India has a very complex and sophisticated system of direct taxation. An income tax was levied on both individuals and corporations even before Independence. During the middle 1950's, estate duty, wealth tax, gift tax and expenditure tax were introduced into the Indian tax system. The first three of these new taxes appear to have become permanent parts of the Indian tax system. The expenditure tax, on the other hand, has been abolished, then re-introduced and finally abolished again. At its peak in 1960-61, the expenditure tax yielded Rs. 0.91 crore in revenue which was about 1/10 of 1 per cent of the total Union tax revenue.[3] According to the budget estimate for 1968-9:[4] the gift tax will yield a revenue of Rs. 1.75 crores (which is less than 1/10 of 1 per cent of the total Union tax revenue); the estate duty will yield a revenue of Rs. 7.50 crores (about 3/10 of 1 per cent of the total Union tax revenue); and, the wealth tax will yield a revenue of Rs. 11.00 crores (about 4/10 of 1 per cent of the total Union tax revenue). Thus the gift tax, estate duty and wealth tax, together account for less than 1 per cent of Union tax revenues. Moreover, since being introduced, the rate of growth in

revenue of all three taxes has been slower than the total rate of growth of Union tax revenues. Thus, it appears unlikely that these taxes will yield a significant amount of revenue in the near future.

Before Independence the personal income tax generally accounted for between 30 and 35 per cent of total Union tax revenue. In 1950-51 the personal income tax yielded Rs. 133 crores, which was about 33 per cent of Union tax revenues. While the revenue from the personal income tax has increased in absolute terms in subsequent years, it has diminished considerably in relative terms. According to the budget estimates for 1968-9, the personal income tax is expected to yield Rs. 306 crores, (which is about 12 per cent of the Union tax revenue).

The Corporate income tax, which is usually referred to as the Corporation tax or super-profits tax, first became a significant yielder of revenue during the World War II period.[5] In 1950-51 the Corporation tax yielded a revenue of Rs. 40.49 crores, which was 10 per cent of the Union tax revenue. Since then the revenue from the Corporation tax has increased about seven-fold, while total Union tax revenue has increased about five-fold. Since 1962-3, the Corporation tax has surpassed the personal income tax in terms of revenue yield. In 1968-9, the revenue from the Corporation tax is expected to be Rs. 324 crores, which is about 13 per cent of Union tax revenue.

In 1950-51, import duties yielded Rs. 108 crores in revenue (about 27 per cent of Union tax revenue). The revenue from import duties remained fairly static during the 1950's, but in the last nine years it has increased from Rs. 136 crores to Rs. 436 crores. In 1968-9, the revenue from import duties is expected to be Rs. 436 crores, or about 18 per cent of Union tax revenue.

Export duties became a significant yielder of revenue during the Korean War boom. In 1950-51 they yielded a revenue of Rs. 47 crores (about 12 per cent

of Union tax revenue). However, the revenue from export duties declined almost continuously until 1965-6, when they yielded barely more than Rs. 2 crores in revenue (or about 1/10 of 1 per cent of the Union tax revenue). However, they have increased considerably since devaluation of the Rupee and are expected to yield Rs. 106 crores in 1968-9 (or about 4 per cent of the Union tax revenue).

Union excise duties are by far the most important source of revenue for the Central Government. While in 1950-51, they accounted for only 17 per cent of the Union tax revenue, according to the budget estimates for 1968-9, the revenue from Union excise duties will be about Rs. 1,250 crores, which is more than half of the total Union tax revenue.

It is widely believed that the relative importance of direct taxes tends to increase with economic development. This has definitely not been the case in India so far. The only major increase in the relative importance of direct taxes[6] occurred during the World War II period. In 1920-21 direct (personal income) taxes accounted for about 36 per cent of the total Union tax revenue; by 1940-41 this percentage declined slightly to about 32 per cent. Then during the war years there was a major increase in absolute and relative importance of direct taxes (now levied on companies as well as individuals); by 1945-6 they accounted for about 55 per cent of the total Union tax revenue. However, since then there has been an almost continuous decline in the relative importance of direct taxation in India. In 1950-51 direct taxes accounted for 43 per cent of the total Union tax revenue; however, in 1968-9 direct taxes (which now include gift tax, wealth tax and estate duty) account for only 26 per cent of the total Union tax revenue. Thus, it can be concluded that since the end of the Second World War, there has been a major increase in the relative importance of indirect taxes. The relative importance of indirect taxes has also increased considerably at the

State level, so that the overall relative importance of indirect taxes in the tax system of India has increased during the past two decades.

There is another widely held belief that the economic development of a country is accompanied by a decline in the relative importance of customs duties and a rise in the relative importance of domestic consumption taxes. This has definitely occurred in India. The share of customs duties (import and export duties) in the total Union tax revenue declined from about 39 per cent in 1950-51 to about 22 per cent in 1968-9. On the other hand, during this same period the relative yield of Union excise duties increased from 17 per cent to more than 50 per cent. While in almost all developing countries there tends to be an increase in the importance of domestic commodity taxes relative to customs duties, India is one of the very few underdeveloped countries that derives more revenue from domestic commodity taxes than it does from customs duties.[7]

The table on page 9 shows the change in relative importance of the various State taxes between 1951-52 and 1966-7.

During this period there was a sharp decline in the relative importance of land revenue (which accounted for 21.0 per cent of the total State tax revenue in 1951-2, and 9.6 per cent in 1966-7) and of State excise duties (which accounted for 21.6 per cent of the total State tax revenue in 1951-2 and 11.6 per cent in 1966-7). On the other hand, the relative share of sales taxes in total State tax revenue increased from 25.8 per cent in 1951-2 to 47.2 per cent in 1966-7. There were also substantial increases in the relative importance of the motor vehicles tax, the entertainment tax and the electricity duty, which together now account for almost 15 per cent of the total State tax revenue.

TABLE 1—STATE TAX REVENUE IN 1951-2 AND 1966-7

in crores of rupees

Tax	*Revenue in* 1951-2	*Revenue in* 1951-2 *as a percentage of total State Tax Revenue in* 1951-2 (*Accounts*)	*Revenue in* 1966-7	*Revenue in* 1966-7 *as a percentage of total State Tax Revenue in* 1966-7 (*Accounts*)
1	2	3	4	5
Land Revenue	48.0	21.0	89.6	9.6
Agricultural Income Tax	4.3	1.9	10.6	1.1
State Excise	49.4	21.6	108.9	11.6
General Sales Tax	54.4	23.8	406.9	43.4
Sales Tax on Motor Spirit	4.5	2.0	35.8	3.8
Total Sales Tax	58.9	25.8	442.7	47.2
Motor Vehicles Tax	10.1	4.4	69.3	7.4
Entertainment Tax	6.4	2.8	35.8	3.8
Electricity Duty	3.4	1.5	43.2	4.6
Stamps and Registration	25.6	11.2	81.2	8.7
Profession Tax	.1	.1	1.7	.2
Urban Immovable Property Tax	1.8	.8	3.0	.3
Total State Tax Revenue	228.2	100.0	937.3	100.0

Source: Appendix table A-2[8].

D. Development and the Necessity of Increased Taxation

It is widely accepted that the key to economic development is to increase the percentage of the gross national product that goes into savings and investment. It is almost as widely accepted that taxes should be thought of as additions to savings. Thus, domestic resource mobilization has come to be centred on two major statistics: the share of saving and thes hare of tax revenue in gross national product. This structuring of the development problem yields the proposition that increased taxation is necessary for economic development and that taxation should be used as a means of mobilizing resources for development. This proposition has become so widely accepted that it seems almost beyond questioning. However, it is useful to remember that very few of the non-communist developed countries employed taxation as a means of mobilizing resources for their development. Japan was perhaps the only exception, in that, in the early phases of its economic development in the late nineteenth century, agriculture was heavily taxed to provide resources for its industrial development.

It is widely agreed that in order to increase the rate of economic growth it is necessary to increase the proportion of savings and investment to gross national product. The main objective of taxation has been to increase the propensity to save and to reduce the propensity to consume.

However, it is too often forgotten that a high propensity to save is only important in so far as the savings are directed towards productive investment. The widespread concern with the incremental savings-income ratio has tended to hide the vital factor of what is done with the savings. For savings to lead to economic growth productive investment must take place. It is probably not an exaggeration to state that the underdeveloped countries do not suffer as much from

a low propensity to save as from a low propensity or inclination to engage in productive investment. As Keynes stated:

> There has been a chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest. The weakness of the inducement to invest has been at all times the key to the economic problem. The desire of the individual to augment his personal wealth by abstaining from consumption has usually been stronger than the inducement to the entrepreneur to augment the national wealth by employing labour on the construction of durable assets.[9]

There is perhaps nothing to which economists concerned with economic development would agree to more than to the notion that additional taxation is necessary for development of the underdeveloped countries. It is a generally accepted view among experts who have studied the problem of financing economic development in the underdeveloped countries, that the tax effort in these countries has not been adequate to mobilize fully the available resources. Implicit in this belief is the notion that the Government has a higher propensity for productive investment out of its tax revenues, than the private sector would have had if the tax revenue had remained in its own hands. There has been a tendency to conceive of taxation as curbing unnecessary consumption and unproductive investment in the private sector while resulting in capital formation and productive investment on the part of the Government. This is a result of considering of tax revenue to be the equivalent of savings (which would be used for Government investment) rather than something which could be used for Government consumption as well as Government investment.

In the past fifteen years the Indian Government has succeeded in almost doubling the percentage of national income captured by taxation. While in 1951-2 tax revenues represented about 7.4 per cent of national income, by 1966-7 they had grown to 13.5 per cent of the national income. However it seems very

unlikely that productive Government investment (or developmental expenditures) increased anywhere near as much. A great part of the increase in revenue appears to have been absorbed by increases in collective consumption.[10] In fact, the "marginal propensity to consume of the Government appears to be almost as high as that of the private sector. The Government's ability to raise revenue has been greater than its ability to undertake productive investment."[11] It is not just an increase in tax revenue as a percentage of the national income, but the proper expenditure of this revenue, that enables an increase in the growth rate to occur. Whether increased taxation will promote economic development depends largely on what type of Government expenditure takes place.

E. Definitional Problems

Many systems of classification have been developed to distinguish consumption taxes from other taxes and to distinguish among consumption taxes. Historically the most important classification has been 'direct' and 'indirect' taxes. Classical and neo-classical economists made considerable use of this dichotomy, which is still widely used, although subject to increasing criticism. The distinction was drawn by John S. Mill on the basis of intended or desired incidence when he wrote:

> Taxes are either direct or indirect. A direct tax is one which is demanded from the very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another: such as the excise or customs.[12]

De Viti de Marco suggested the following extension of

the above classification: (1) direct taxes on the income produced, or its sources such as personal income taxes, corporate income taxes, property taxes, etc.; (2) indirect taxes on the income consumed, such as excise and customs duties; and (3) indirect taxes on the income saved, such as taxes on the transfer of property, gifts and successions.[13]

Another common view is that a tax should be regarded as direct if it takes account of the individual circumstances of the person who bears it, but that it should be regarded as indirect if it depends solely on an act or event (production, consumption, exchange). Perhaps, the most common distinction is based on whether the tax is shifted or not. However, Mills' emphasis on whether the tax was *intended* or *desired* to be shifted, has been replaced with the concern as to whether the tax is shifted in fact. Unfortunately, the extent to which various taxes are shifted is not known with any great degree of certainty. One economist has concluded that:

> This definition is useful only under an incidence analysis that is restricted to partial equilibrium, that is, an analysis which assumes away many forces that may be operative, and most indirect effects. Only in this way can purely tax effects be isolated, and a distinction thus made between taxes that are shifted and taxes that are not. In any event, the existence of varying degrees of shifting, under comparative statistical analysis, makes this criterion a slippery one. A tax might be thought of as 'partly indirect' if it is partly shifted, obviously not a very useful idea. If we proceed from partial to general equilibrium, and also take account of the fact that under dynamic analysis allowance is made for the alternative paths that may be followed when a disequilibrium is produced by the introduction of a tax, it becomes possible to take into account all the significant indirect effects of the tax, including both income and substitution effects. When this is done, it transpires that there are few if any taxes that are not indirect under this definition. Obviously there must be degrees of directness, in the sense that some taxes bring about substantial economic responses, and others do not. But there is no logical place to draw the line.[14]

Mrs Hicks has written that:

> In respect of the classification of taxes into direct and indirect, it is hard to disagree with the writer in the *Handworterbuch* that "the generality of the acceptance of these terms is only equalled by the differences in their application."[15]
>
> Similarly, and somewhat ironically, a conference on *The Role of Direct and Indirect Taxes in the Federal Revenue System*, reached near unanimity in the feeling that the labels direct and indirect taxation are neither very enlightening nor very helpful in analyzing questions of fiscal policy."[16]

While there seems to be no disagreement that commodity taxes are 'indirect taxes' (no matter how defined),[17] it does not seem very fruitful to classify them as such in light of the ambiguity of the term.

Moreover, our definitional problems do not end here, as there is almost equal ambiguity in the distinction between 'excise' and 'sales' taxes in the literature on public finance. Neither term has any definite meaning in the literature on taxation.

John Due has defined a sales tax as follows:

> *A levy imposed upon the sales, or elements incidental to the sales, such as receipts from them, of all or a wide range of commodities*, excluding taxes imposed at fractional rates upon gross receipts in the form of business occupation or license taxes. As sales tax may be imposed upon all transactions through which commodities pass or upon one or a small number of stages only. The tax may be confined to physical commodities, or it may apply to some or all services rendered by commercial enterprises, professions, etc. (but not services rendered by workers to their employers).[18]

A sales tax as defined above is usually referred to as a 'general' sales tax.[19] However, a tax imposed upon the sale of particular commodities or groups of commodities is usually referred to as a selective sales or excise tax.[20] Thus, the difference between a sales tax and an excise is essentially the extent of coverage. Sales taxes are imposed upon the sale of all commodities except those specifically exempted, while excises are imposed upon the production or sale of particular commodities or related groups of commodities. However, there is no clear-cut distinction between the two

types of commodity tax, as a widespread excise (or selective sales) tax system resembles a general sales tax system with many exemptions. The distinction is really a matter of degree. Clinton Oster feels that: "*Perhaps the real distinction is that a selective salestax program can treat commodities differently, while a general sales tax applies uniformly to all taxable commodities.*"[21] It is widely felt that a general sales tax has no rate differentiation.[22] Both the general sales tax and the excise tax may be levied at any point in the production and distribution process. While an excise tax is generally levied at only one point in the production and distribution process, the sales tax may be levied at more than one point or at all points. Sales taxes levied at more than one point in the production-distribution process are usually called multiple-turnover (or, simply turnover) taxes.[23] The value-added tax is also levied at all (or almost all) points in the production-distribution process, but unlike the turnover tax, it is not cumulative. The three major forms of single-stage sales taxes are taxes on (1) sale by the manufacturer,[24] (2) last wholesale transaction,[25] and (3) retail sale.[26]

Unfortunately the widely accepted definitions of excise and sales taxes discussed in the previous section cannot be readily applied to the excise and sales taxes that exist in India. A distinguishing characteristic of the Indian excise system is the large number of commodities encompassed by it. The legal interpretation of the excise duty in India is that it is a tax on goods produced or manufactured, and not on their sales or proceeds of sales (which is a sales tax). While excise duties are levied primarily on finished manufactured goods, it is also levied on many raw materials and intermediate goods. Due to the legal restriction mentioned above no Indian excise duties are levied beyond the manufacturing stage. There are no retail excise duties such as those levied in the United States.

There is a great variety of different types of sales

tax systems in India, most of which are not easily categorized. All of the sales tax systems in India are either a combination of multiple and single stage taxes or a combination of various types of single stage taxes. While the sales tax systems of India are usually referred to as 'general sales tax systems', they all involve considerable differentiation of rates, and most of them have widespread exemptions. The difference in number of commodities covered by the Indian excise system and the Indian sales tax systems is considerably smaller than that found in any other country. The Indian excise system has a wide coverage. Thus, the extent of coverage is not a good basis for distinguishing between sales and excise taxation in India. The only major distinction which can be made is that the sales taxes are almost always levied at *ad valorem* rates, while excise duties are most often levied at specific rates.[27] However, as mentioned above, there is a fairly clear legal distinction between these two systems of taxation in India. Articles 246 and 272 of the Constitution empower the Union Government to levy and collect excise duties on all goods manufactured or produced in India, except for liquor and narcotics. The States' use of excise taxation is restricted to liquor and narcotics. On the other hand, only the States are empowered to levy sales taxes.

PART I

1. Indirect Versus Direct Taxation

Much of the literature on taxation in developing countries is devoted to discussions of the pros and cons of direct and indirect taxes. An important argument for indirect taxes is that they are not directly related to the earning of income and thus, unlike income taxes, do not constitute a disincentive to earn money income. At the same time, since indirect (commodity) taxes raise the cost of consumption in relation to saving, incentive is provided to increase the percentage of income saved. By concentrating the burden upon persons spending high percentages of their incomes, it is argued that these taxes force greater reduction in consumption per dollar of revenue than the income tax. If the taxes are imposed primarily upon luxury goods, not only can curtailing of luxury consumer spending be maximized, but reasonable accord with the usual standards of equity can be attained. Basic subsistence expenditures can be freed of tax. Indirect taxes have frequently been justified on the grounds that they provide an effective means of extracting some contribution from the great masses of the population not subject to the income tax. Certain excise taxes, such as those on liquor, tobacco, and petroleum products, have been retained on the principle that the use of the commodities represents a suitable measure of ability to pay, or reflects enjoyment of certain government facilities, such as highways directly benefiting those paying the taxes. It is also maintained that indirect taxes may be more tolerable politically, since their burden is concealed in prices or they are paid in trifles with the cumulative burden being largely ignored.

by the tax-payers. A final major argument for indirect taxes is their greater ease of administration, since they can be collected from the importer, exporter or large producer.

On the other hand, indirect taxes are generally regarded as an inequitable way of raising revenue and as inferior to direct taxes, particularly to the income tax. It is maintained that only the latter can adjust the burden of taxation in light of the tax-paying ability of various individuals, as determined by their incomes, number of dependants and other personal considerations. Indirect taxes generally are regarded as regressive. Moreover, they fall capriciously on individuals with the same tax paying capacity. Taxes imposed upon particular commodities discriminate against the persons who have particularly high preferences for the taxed items. It is also pointed out that although indirect taxes do not directly impinge on income, they do affect the utility of the income. Thus, it is widely felt that indirect taxes are undesirable in principle, in terms of equity and their undesirable economic effects in distorting the price system.

The rest of this chapter discusses more fully these common arguments for and against indirect (commodity) taxes.

A. Work Incentives

It is sometimes argued that an important advantage of commodity taxes is that they are not directly related to the earning of income and thus, unlike individual income taxes, do not consistute a disincentive to earn money income.[28] There is considerable uncertainty as to how important these disincentive effects of income

taxation are in practice. The individual income tax affects work incentives in two different directions. On the one hand, it provides a greater incentive to obtain more income because it cuts down on the income left over (after taxation) for spending.[29] On the other hand, it makes it less attractive to sacrifice leisure (or to work more), since the extra income that can be obtained for any given amount of additional work is reduced.[30] Unfortunately there is no *a priori* basis for deciding which effect is more important.

It is sometimes suggested that certain institutional factors greatly inhibit the ability of many people to substitute leisure for work. It is often argued that wage and salary earners generally have their hours and conditions of work fixed (and even their age of retirement is fixed in some cases), so that any particular individual does not have the option of varying the amount of work done merely as a result of his inclination to do so.[31]

Thus, it is argued that only a comparatively small number of people in the professional classes, or in business, are effectively confronted with the choice of doing more or less work; and among these people considerations of material reward may be relatively unimportant. In any event, taxation is only one of many factors affecting work incentives. The available evidence suggests that income taxation does not have much effect on the amount of labour supplied by workers and managers.[32] Thus, an increase in income tax rates will not lead to any significant decrease in the supply of effort and, conversely, a decrease in such rates will not bring about any significant increase in the supply of effort. In brief, there seems to be widespread agreement that in choosing between an income tax and a commodity tax not much importance should be attached to the 'incentive to work' argument.

B. Neutrality, Allocation, Efficiency and Excess Burden Effects

It is generally agreed that the unintended interference of taxation in the consumers' economic behaviour should be minimized. Or to put it another way, in accomplishing their intended objectives, taxes should interfere as little as possible with the functioning of the market system. This non-interference with market behaviour is generally referred to as neutrality. It follows from the principle of neutrality that taxes which do not interfere with taxpayer's economic behaviour (which cannot influence him to change his consumption, work or production patterns) are less burdensome, per dollar of tax paid, than are taxes which call forth such changes.[33] Perhaps, the only tax which does not impose a burden in this sense (does not distort the allocation of consumption, work or production) is a head tax. Other taxes tend to result in varying degrees of 'excess burden'.

Traditionally, economists have argued against consumption taxes and in favour of income taxes on the ground that consumption taxes distort the consumers' choice of goods and therefore impose an 'excess burden' upon the individual tax- payer or upon the community, as compared with the burden imposed by raising the same amount of revenue by an income tax. It was argued that by distorting prices (including tax), a commodity tax interferes with the optimum allocation of resources because consumers divert some of their purchases from taxed to untaxed outlays. If consumers purchase an inferior combination of goods and services as compared to what they would have purchased in the absence of a commodity tax, there is a reduction in consumer satisfaction and hence an 'excess burden'. The essence of this 'excess burden' contention was that the tax-induced re-allocation was always inferior from the consumers' point of view. Moreover it was held that an equal yield income tax

would not distort consumer choice and thus would not impose an 'excess burden'.[34] Thus, it was felt that a commodity tax imposes a burden on the economy because consumers are not as well off as they would have been if the same revenue had been raised by an income tax which does not distort patterns of consumption.

Some economists eventually rejected the contention that the imposition of an 'excess burden' is peculiar to commodity taxes. Wald pointed out that income taxes might also distort the optimum allocation of resources by reducing the price of leisure and the cost of liquidity.[35] These distorting effects of income taxation had been pointed out even earlier by Hotelling who felt that:

> an income tax of the usual kind is a sort of excise tax on effort and waiting... (and) is to some extent objectionable because it affects the choice between effort and leisure and the choice between immediate and postponed consumption.[36]

Yet, some economists maintained that introducing the impact of taxation on leisure did not really destroy the case against indirect (consumption) taxation on neutrality grounds. It was pointed out that commodity taxation also distorts the choice between leisure and work. Although a commodity tax leaves the money-price of leisure unchanged, it reduces the real value of a given money income (by raising the price of commodities). Thus a commodity tax as well as an income tax alters the relative real values of leisure and work. In the light of this it was maintained that as long as it is assumed that an individual does not function completely under money illusion, a commodity tax brings about two distortions, the income tax but one. While the income tax distorts the choice between income and leisure, the commodity tax not only distorts this choice, but also the choice between goods.[37]

However, it was pointed out by Little that this argument was unsatisfactory because it assumed that the supply of labour was completely inelastic and would

remain the same whether taxation was direct or indirect.[38] This amounts to saying that leisure is not a substitute for any other goods. Essentially, Little maintained that both income and commodity taxes result in two distortions. A commodity tax would distort the choice between taxed and untaxed goods and between taxed goods and leisure, but would not distort the choice between untaxed goods and leisure. However, an income tax would distort the choice between leisure and taxed goods and the choice between leisure and untaxed goods, while leaving the choice between goods undistorted. Since there is no way of telling the weight of the excess burden that results from each of the two types of interference under either tax, it cannot be said in general which tax is superior.

Thus Little concluded that the purely theoretical case against indirect taxation is an illusion, and that the only general conclusion that can be risked is simply that the best taxes are those on goods (including leisure) for which the demand is least elastic.[39]

A second major criticism of the classical indictment of commodity taxation attacked the general validity of all excess burden theories, contending that they rest on the special assumption of pure competition or ideal initial conditions. If monopoly elements are present it is unlikely that the relative quantities of commodities produced will be ideal. It is pointed out that the contention that commodity taxes result in an excess burden rests on the special assumption that the relative quantities of various commodities produced are ideal in the absence of commodity taxes.[40] If this is not the case, commodity taxes might make consumers better off instead of worse off and there is no *a priori* reason for assuming one or the other result. If a selective commodity tax on a non-monopolistic product brings the price relations with monopolized products nearer to what it would have been in the absence of monopoly, the selective commodity tax may reduce and not increase the 'burden'.

Under the following types of conditions, commodity taxes may improve the existing allocation of resources: when the degree of monopoly differs a good deal from one commodity to another; when external dis-economies exist on the production side (smoke, water, population, etc.) or consumption side (drunkenness). Thus, either an income or a commodity tax may just as well impose an 'excess benefit', as an 'excess burden'.

To summarize, the argument that consumption taxes are inferior to income taxes on neutrality grounds (that the former imposes an excess burden) is subject to two major objections. First, it was assumed that the supply of work was completely inelastic with respect to changes in the rates of income or consumption taxes. Secondly, it was implicitly assumed that the initial conditions before the imposition of the tax were 'ideal'. Thus, the validity of the theoretical superiority, on welfare grounds, of income to consumption taxation, rested on the assumptions of a completely inelastic supply of labour with respect to tax changes and 'ideal' initial conditions. Since, in the real world, distortions of individual choices among different commodities and between work and leisure are widespread, no general indictment of income or commodity taxation on neutrality (allocation) grounds is valid. Either tax may result in an 'excess burden', but either may also result in an 'excess benefit'. While for some time the theoretical superiority of direct (income) taxation over indirect (commodity) taxation had been accepted as virtually axiomatic, now it is generally regarded as something which cannot be 'proved' in theory, and that in practice each particular case must be investigated.

C. Excess Burden of General Versus Selective Commodity Taxes

It can be argued that commodity taxes on particular products change relative prices and lead to the substitution of tax-free for taxed products. However, if a commodity tax is placed on all goods and services, no substitution will occur as a result of the tax. Thus, selective taxes are more likely to create an excess burden than general taxes because there is a possibility of substituting untaxed for taxed commodities, if only some commodities are taxed.

Musgrave and Richman have argued that "there is a prima facie preference, on excess burden grounds, for a general as against a restricted tax."[41] However they define 'generality' in a special way. For them a tax is made more general if its coverage is extended over a wider range of economic choices of the same type, that is, choices that may be substituted more or less readily, such as alternative consumer purchases. The degree of excess burden that results depends on the degree to which substitution is possible, "the general rule being that excess burden varies positively with the degree of possible substitution".[42] Whenever a commodity tax disturbs the equality between the consumers' rate of substitution among products and the sellers' rate of transformation an excess burden is imposed. Since it is hard to know how the possibilities for substitution will be affected by differing degrees of generality in a commodity tax system, Musgrave concludes that "we cannot say with assurance whether a somewhat more broadly based system of *ad valorem* excises is preferable to a somewhat more selective system."[43]

However, on excess burden grounds, it can be concluded that a general *ad valorem* commodity tax is preferable to a selective commodity tax levied at different rates. Thus the excess burden of commodity taxation[44] is minimized when the commodity tax

is levied at the same *ad valorem* rate on all consumer outlays. On the other hand, if some exemptions or differential rates are introduced, the excess burden will be increased. However, it is not possible to say whether the excess burden will be increased or decreased if an excise system that already includes many partial excises is expanded or contracted, or if an excise system with *ad valorem* rate differentiation has its rate differentiation reduced or increased.

It should be kept in mind that the notion of a 'general tax' is really a theoretical concept. In practice there are no really general taxes. The so-called general income taxes and general sales taxes are not really general in the sense of taxing all types of income or all consumer outlays at the same rate. Thus, the whole excess burden discussion gives very little guidance to tax policy in the real world. The general taxes which it declares as preferable are fictitious and it is unable to say anything in general as to whether more selective or more general taxes are preferable. In Musgrave's words all we are left with is the:

> common-sense view that the excess burden of more general taxes tends to be smaller than that of selective taxes, and with the formal conclusion that taxes on goods and services which have a low rate of substitution tend to be superior to taxes on those which have high rates of substitution.[45]

A few economists have questioned the productivity and relevance of the whole 'excess burden' discussion. Jose Maria Naharro has contended that:

> Except for situations presupposing a high level of abstraction, unrelated to the real situation of these taxes, the results of these discussions have been meager.[46]

Similarly, after reviewing the whole excess burden discussion, David Walker has concluded that it is a 'sterile controversy' of little practical importance.[47] He questions the value of arguments based solely upon considerations of economic welfare, contending that:

> Tax policy is part of economic policy and economic policy is to do with politics. Other much more general considerations enter into the formulation of tax policy and there is

> little value in arguing that such and such a tax structure is 'best' merely from a consideration of the economic welfare implications.[48]

In any event neutrality is only one objective of a tax system and it must be weighed against other objectives such as equity. Moreover, in some cases Governments find it desirable to deliberately interfere with neutrality. Thus, during war-time, selective commodity taxes may be used as a rationing and reallocation device. Similarly, the public policy of many underdeveloped countries calls for a diversion of demand from some products to others in the interests of economic growth and what is deemed to be a more desirable or efficient allocation of resources. In practice, the underdeveloped countries tend to give very little emphasis to neutrality considerations in their tax systems.

D. Equity

Almost all authorities on taxation have emphasized the criterion of justice. 'Equity' comes first on the list of tax maxims enumerated by Adam Smith.[49] There is general agreement that taxes should be equitable, but considerably less agreement concerning what exactly would be equitable. Since everyone commends equity, one should not expect its meaning to be precise. It is a political and not a strictly economic concept. Thus, many economists have regarded equity as more properly the province of statesmen and social philosophers.[50]

The concept of equity is not fixed and rigid. It depends upon the social and political ideas prevalent and accepted in a community. What was deemed to be

just and fair in the past may be regarded as inequitable today. Historically the concept of equity has been used to justify regressive, proportional and progressive taxation. However, there is widespread agreement today that taxes, or at least the tax system as a whole, should be 'progressive', but there is little agreement on just how progressive taxes should be.

The view of a tax as a price paid for public services characterizes all benefit doctrines and distinguishes them sharply from the principle of individual ability to pay. The latter emphasizes the contributory nature of the tax payment and implies that the benefits from most government expenditures, being of a general rather than a specific nature, cannot be traced to individual recipients. In practice, equity is usually related to the ability to pay. The benefit doctrine, if applied at all, is restricted to a few specific 'taxes', such as highway taxes, postal charges, etc. Moreover, it is widely held that the principle of ability to pay leads to progressive taxation, on the basis of someone of the sacrifice theories and the law of diminishing marginal utility.

Two main aspects of the equity problem are usually delineated: (1) similar treatment of people in similar circumstances; (2) dissimilar treatment of people in dissimilar circumstances. The cirumstances considered may refer to income, expenditure or wealth, and to any of the various meanings which each of these concepts can be given. Probably the most appropriate criterion would be a combination of income and wealth, but it is difficult to reach agreement on how the two should be weighed in relation to each other. Thus, in practice, equity is almost always discussed in terms of income alone.

In discussions on tax equity, then, the general practice is to adopt income as the index of ability to pay, and to favour a progressive tax system. However, there is little agreement on just how progressive a tax system should be. Dan Throop Smith has pointed out that:

> The concept of 'ability-to-pay' is almost universally taken to justify some degree of progression in effective tax burdens. But the pattern of progression in spite of numerous attempts at rationalization, seems to rest on personal value judgments for each individual's opinion and on political compromise in the world of affairs.[51]

It has not been possible to postulate any sort of optimum degree of progressivity.

It is now generally realized that ultimately what is of real importance is the equity of the tax system as a whole and not the equity of any one tax alone. The fault of one tax may be balanced by the virtues of another. Thus, it is widely felt that as long as the tax system as a whole is progressive, it is not a matter of great concern if a few of the taxes taken alone are regressive.

Actually, equity should be thought of in terms even larger than the tax system as a whole. It is desirable to look at the equity of the tax system and public expenditure taken together, and not merely the equity of the tax system. The lack of equity in the tax system may be offset by equity in public expenditure. It can be argued that public expenditure would be a more effective or more desirable means of achieving the desired equity than taxation. In brief, then it is the total impact of the Government (on both the taxation and expenditure sides) which should be equitable. However, in practice, not very much is known about the distribution of public expenditures. The conceptual and practical problems of measuring the incidence of public expenditure are even greater than the not insignificant problems encountered in measuring tax incidence. Thus, in practice, equity is usually discussed in terms of specific taxes or in terms of the tax system as a whole, and not in terms of public expenditure.

E. Intergeneration Equity

To some extent the attempt to increase the rate of savings and investment raises issues of equity between generations. While taxation itself does not involve any problem of equity between generations, its influence on both private and government investment does.[52] An increase in savings and investment requires a reduction of consumption in the present in order to have increased consumption in the future. Implicitly it is frequently argued that it would be inequitable to reduce the consumption standards of the people in order to achieve economic development. Instead it is argued that taxation should tax a part of the *increases* in national income so that the consumption of the people can rise over time. In this way it might be possible to ensure that the rate of savings (and investment) increases over time, while the absolute consumption standards of the people would also rise, so that the present generation does not bear an unduly heavy sacrifice for the sake of economic development. Many economists seem to feel that this would achieve equity between the sacrifice of consumption by the present generation and the future generation.[53]

It does not seem possible to gain any precise notion of what constitutes generational equity. Most people would agree that the consumption standards of the people should be allowed to rise over time and that taxation (and government investment) should not be so high as to reduce the present consumption (private and public) of the people. In other words, the objective of government taxation, expenditure and debt policy should be to ensure that some part (and for underdeveloped countries, preferably a rising part) of the increase in income is channelled into investment. However, there is not likely to be much agreement as to just how much of the increased national income should be used for increased consumption and how much for increased investment.

There seems to be a feeling that for underdeveloped countries taxation should be 'progressive' over time as well as over incomes at any given time. Thus, most economists discussing underdeveloped countries imply that an increase in the rate of investment and an increase in the rate of taxation (both as percentages of gross national product) should increase over time (at least until these rates become the same as those found in developed countries or until the under-developed country becomes developed).[54]

While inter-generational equity is largely a matter of government expentiture (investment) policy, the choice among taxes for raising revenue can be considered to affect generational equity in so far as it affects private consumption, savings and investment.

F. Progressivity

The most frequent criticism of commodity taxation is that it is regressive. In India, it is widely believed that commodity taxation by its very nature, must be regressive. In S.N. Agarwala's book entitled *Indian Public Finance* it is stated that:

> Sales tax is not a progressive tax as there is no possibility of introducing [an] element of progression in this tax. It is an indirect tax and an indirect tax cannot be progressive. It is a tax on the sale of commodities and whosoever purchases the commodity has to pay the tax at the same rate irrespective of his income or ability to pay. Therefore, the tax is not progressive.[55]

Similarly, D.T. Lakdawala states that:

> Income taxation can be easily made progressive, while commodity taxation even with a heavy rate of taxation on luxuries cannot be made progressive.[56]

The notion that indirect taxes are regressive is

commonly held in the developed countries as well. Richard Goode has contended that there is statistical evidence to support this evaluation for some of the principal indirect taxes in certain of the richer countries.[57] A number of studies of sales tax in the United States have shown that the sales tax without exemptions is mildly regressive. However, there is no statistical support for the textbook charge that such taxes are 'highly regressive'.[58] What most of these statistical studies have revealed is that a sales tax with food exempt is slightly regressive in the very low income groups and again in the higher income groups. However, for most of the range the retail sales tax is found to be roughly proportional, with food exempt.[59]

Studies of both the Canadian manufacturers' sales tax and the Canadian Provinces' retail sales taxes (both of which exempt food) have revealed proportionately throughout the income range.[60]

Sir Arthur Lewis is one of the few economists who has correctly regarded the idea that indirect taxes are necessarily less progressive than direct taxes as fallacious.[61] The poor, the rich and the middle classes consume different goods in different proportions. Hence, if you put low indirect taxes upon what the poor consume and high indirect taxes upon what the rich consume, indirect taxes can be made just as progressive as direct taxes. While indirect taxes need not be regressive, or even less progressive than direct taxes there seems to be some justification for the feeling that this is often the case in practice. Probably, the primary reason for this is the fact that in many underdeveloped countries the main purpose of indirect taxes is, and traditionally has been, fiscal; they have been imposed on articles in common use because these afford a large and easy source of revenue. This was the major explanation given by the Economic Commission for Latin America which has written as follows:

> There is a widespread and legitimate tendency to assume that indirect taxes, in particular where their main purpose is

> fiscal and they account for a substantial portion of total revenue, are, taken as a whole, regressive.[62]

Underlying the above assumption that the whole system of indirect taxes is regressive is the additional assumption that the average propensity to consume is less for high income groups. Moreover,

> . . . . indirect taxes are usually low or non-existent on many items that are important in the consumption patterns of upper income groups in the underdeveloped countries, including, for example, personal services of household servants and others, luxury foods of local origin, and foreign travel.[63]

It is probably not possible to make any generalization concerning the regressivity of indirect taxation in underdeveloped countries. The incidence of an indirect tax system depends on the articles taxed, the relative rates and a variety of other things. In some countries they undoubtedly are regressive, in others they undoubtedly are progressive and in most it is uncertain which they are.[64] Moreover, it is meaningless to speak of the whole system of indirect taxation as being either progressive or regressive. It is necessary to look beneath such sweeping statements to ascertain over what *range* indirect taxes are progressive or regressive. While we lack satisfactory data on this question, it seems likely that most commodity taxes in underdeveloped countries are progressive at the lower end (of the income distribution), regressive at the upper end and uncertain in-between. In other words, they are regressive against the 'middle classes'. The reason for this belief is the fact that the lower (income) classes in most underdeveloped countries are largely outside the monetary (market) sector, and to the extent that this is so they escape indirect taxation altogether. On the other hand, much of the luxury consumption of the higher classes (such as personal services and travel) is not effectively taxed. Much of the revenue from commodity taxes in underdeveloped countries is derived from what might be called the 'middle-class luxuries', such as liquor (including wine and beer) and tobacco.[65]

While it is possible to make commodity taxes progressive, it is much more difficult to do away with what might be called their capriciousness. Unlike income taxes, commodity taxes are unable to adjust the burden of taxation in the light of the number of dependants and other personal considerations. Commodity taxes tend to bear more heavily on large families than on small families within every income group.[66] Moreover, families of the same size and the same income are likely to bear considerably less of a commodity tax burden if they are rural rather than urban. It will be seen that one of this writer's major criticisms of the Indian excise and sales tax systems is this inequity in tax burden between urban and rural families receiving the same income (or having the same expenditure).[67] The criticism of commodity taxes on the grounds of their regressivity (in relation to income) has been greatly overdone and is unjustified in the case of many underdeveloped countries. It is the horizontal inequities of commodity tax systems which are generally more serious. Perhaps, the greatest weakness of commodity taxes is their inequity between the rural and urban sectors or between occupational groups.[68]

G. Savings

One of the strongest arguments made in favour of commodity taxation in underdeveloped countries is that it encourages saving. Taxes on consumption may encourage saving for two reasons. First, the reward for savings will be higher under consumption taxation than under income taxation. Second, the capacity to save will be greater in the sense that potential savers will have more resources at their disposal.

First let us see why the reward for savings may be higher under consumption taxation than under income taxation. The basic reason for this is that commodity taxation, unlike income taxation, affects the valuation of present versus future consumption. The terms of exchange between present and future consumption are more favourable to the latter under a system of consumption taxation than under an income tax, and it is in this sense that the reward for saving is greater under a consumption tax.[69]

> The advantage to the saver under the consumption tax is due to the fact that postponement of consumption also postpones tax payment and allows the saver to receive interest on the postponed tax.[70]

Thus, levying a tax on consumption, rather than income, has the effect of increasing the rate of return available on savings. However, it is not at all certain that this will stimulate additional savings. There is still considerable debate at both the theoretical and empirical levels as to whether the total volume of saving is positively correlated with the interest rate. This uncertainty has led Richard Goode to argue that very little importance should be assigned to the incentive effects of differences in rates of return on savings that are obtainable under permanent taxes on income, consumption or wealth.[71] Thus, the importance of the incentive-to-save argument in favour of consumption taxes remains uncertain in actual practice. While it would seem that consumption taxes must be comparatively favourable to private savings, very little is known about the magnitude of this effect.

Unfortunately much of the debate on the relative merits of income and consumption taxes in favouring savings, has failed to differentiate between various kinds of income and consumption taxes. A consumption tax which applies to capital goods as well as consumption goods may have a considerably different impact on savings than a consumption tax which is imposed solely on consumption goods. Since exemption of

capital goods from a consumption tax is by and large equivalent to the exemption of people's savings (and investments) from the tax, it should be expected that people would consume less and save more if capital goods are exempted than they would if capital goods are also taxed.[72] Thus, it can be argued that the advantages of consumption taxes in favour of saving and investment materialize only if capital goods are not subject to tax.[73]

If temporary taxes, rather than permanent taxes, are considered, the impact of consumption taxes (as compared with income taxes), on savings, will probably be more important. A temporary tax[74] on consumption (which is known to be temporary) will provide an even stronger incentive to postpone consumption. The effectiveness of high consumption taxes (in restraining consumption or promoting savings) levied by many Western countries during the Second World War was largely attributable to the widespread belief that they were temporary measures. While a temporary income tax gives an inducement to postpone income it does not necessarily encourage savings or the postponement of consumption—in fact it may lead to a reduction in savings in order to maintain consumption levels.

One of the most effective ways of promoting savings or restraining inflation is to provide for a temporary increase in the rates of commodity taxation. The effect of the increase in the rates of commodity taxation is enhanced if they are known (or even thought) to be temporary. However, the magnitude of this effect will be dependent upon the generality of the increase in commodity taxes. The effect on savings will be greatest in the case of an expenditure tax or a general commodity tax, and will decline with the reduction in the number of commodities covered.[75]

The 'capacity to save' argument in favour of consumption taxes[76] is based on the notion that consumption taxes are regressive, or at least less progressive, than income taxes. In other words, it is not an argument in

favour of consumption taxes as such, but rather an argument in favour of less progressive or regressive taxes. On the assumption that the ability and inclination to save rises with income, it is argued that the less progressive a tax is, the greater will be the fraction of resources left with high savers. Thus, it is widely believed that a great inequality in income distribution yields more savings (for the country as a whole) than would a more equitable distribution of income. In the light of this many economists feel that any redistribution of income through taxation policy in favour of lower income groups and at the expense of high income groups runs counter to the underdeveloped countries' desire for economic growth, because such a redistribution affects adversely the rate of private savings and private investment.

However, some economists feel that the conflict between economic growth and equality of income is greatly exaggerated. They argue that the rich in the underdeveloped countries either engage in luxury spending and do not really save very much, or that their saving is largely hoarded, or used in speculative investments in real estate, etc. and does not result in productive investment. With these considerations in mind one eminent economist has even gone so far as to state that redistributive finance "appears to offer greater gains and involve less costs to underdeveloped countries than to developed countries."[77]

There seems to be a harkening back to the position of the classical economists, who usually assumed that saving was done almost exclusively by receivers of profits. This classical view is still widely accepted. Sir Arthur Lewis has emphasized[78] that it is the inequality which goes with profits that favours savings, and not the inequality which goes with rents or labour income. He argued that landlords consume most of their rental income by lavish living. He asserts that: "The ratio of savings to national income is a function not just of inequality, but more precisely, of the ratio

of profits to natural income."[79] Like the classical economists, Lewis argues that the extent of saving out of income depends on the nature of the income, more than on the amount of the income. He feels that there are low savings rates at all levels of labour and rental income, and relatively high savings rates at all levels of profit income.

In a somewhat similar vein Stephen Lewis has contended "that corporate income is saved at a much higher rate than non-corporate income, and that the property income is saved at higher rates than labour income."[80]

The above analysis about the propensities to save from different types of income, implies that perhaps the most effective way of increasing savings, in underdeveloped countries, would be to reduce the level of taxation on corporate profits.

In this whole discussion of the influence of various types of taxes on savings it must be kept in mind that the composition of savings and investment is just as important as their absolute amounts. Savings which result in productive investment have a considerably different impact on economic growth than savings which result in the hoarding of money, gold or land.

H. Inflation

The relation between commodity taxes and inflation seems paradoxical. While the result of increasing the rate of commodity taxation is to raise the price of the taxed commodities, it is maintained that the ultimate effect of this is anti-inflationary. It is argued that an increase in prices resulting from a rise in the rate of commodity taxation differs from the usual inflation in one important way; namely, factor prices do not rise.

There is adjustment only in commodity prices, unlike the usual inflation which involves an adjustment of both factor and commodity prices. It is argued that this commodity tax—induced increase in prices does not generate additional increase in prices as is true of inflation. The increase in the price level which results from a commodity tax is unlike the usual inflation because it does not give rise to additional money income, which generates further inflation. Thus, although a rise in commodity taxes raises the price of commodities, it is maintained that this rise has an anti-inflationary effect.

Although all taxes, whether direct or indirect, are deflationary in effect, there is a difference in the way this is brought about. An income tax reduces the income of the people and thus the amount of money available for spending on consumption. Thus, an income tax absorbs income before it can be spent. Commodity taxes reduce the amount of goods and services that can be purchased with a given money income. Thus commodity taxes absorb purchasing power by raising prices. On the one hand, the tax induced rise in the prices of commodities, prompts the consumer to buy less of the taxed commodities and, on the other hand, the additional cost of the taxed commodities leaves him with less to spend on other commodities. Thus, it is claimed that excise taxes are deflationary in the ultimate analysis because they enhance prices, i.e. because they are inflationary in effect, in the short run.[81]

In the sense of leading to a higher price level, consumption taxes are likely to be more inflationary than taxes on income. Consumption taxes, unlike income taxes, do lead to a rise in the price level.

It is the general text-book conclusion that a consumption tax has a greater deflationary impact (i.e. produces a greater reduction in output) than an equal yield income tax. This is because an income tax is likely to fall more heavily on savings than a consumption tax of the same yield. A commodity tax will be more

effective as an anti-inflationary device if it is known to be temporary. However, if tax-payers believe that the consumption tax will remain in use permanently or for a long period of years, its effectiveness in inducing persons to postpone consumption will be weakened.[82]

It can be argued that a number of the inequities of consumption taxes can be considered advantageous from the standpoint of controlling inflation. Thus in comparison with an income tax, a commodity tax places a greater relative burden on families which spend a relatively high percentage of their income. In general, these would include low income families and large families, as compared to smaller ones.

The general conclusion that consumption taxes are more potent than income taxes as anti-inflationary devices must be qualified if there is a wage-price spiral or if inflation is of the cost-push variety. The major limitation of a commodity tax as a deflationary measure is the danger that it will give rise to wage increases. If commodity taxes are allowed to generate added income via escalator clauses and wage increases, their net effect may be inflationary. A number of economists believe that this is indeed the case in practice for a number of countries. Some economists have even gone so far as to maintain that the inflationary effects of commodity taxation are as great as if deficit financing had taken place. It has been argued in an OEEC publication that a general commodity tax applying uniformly to all products would have the same ultimate effect as an issue of currency.[83]

The same argument has been put forth in the Indian context as follows:

> While much more sophisticated analysis is needed on this question, the broad proposition stands that indirect taxation is likely to have identical consequences as deficit financing on costs and prices. For, indirect taxes on wage goods and industrial raw materials have, in general, the proclivity to mark up prices. Indirect taxes on luxuries and semi-luxuries too are likely to push up their price under present Indian conditions. A rise in price of wage goods stimulates the

> demand for the higher wages which eventually leads to vicious cost inflation. . . . it is difficult to escape the conclusion that, *for the economy as a whole*, the impact of indirect taxes is not likely to be less inflationary than that of deficit financing.[84]

It is sometimes argued that the inflationary pressures in an underdeveloped country are likely to come mainly from a few items which are in short supply. If this is the case, commodity taxes on these specific items in short supply may be more desirable than either a general income or a general commodity tax. It is argued that in the context of a developing economy, characterized by acute shortage of some commodities, selective commodity taxes are more effective in restraining the level of demand for those in short supply than direct taxes, which reduce the disposable income but do not influence the direction of expenditure of the remaining income. Not only will commodity taxes on scarce items reduce the inflationary pressures generated by them, but they will aid in the rationing of these scarce commodities. Where direct rationing is not likely to work—and particularly where shortages are severe enough so that price control without rationing will generate grey markets—the demand-shifting commodity tax may be the most appropriate procedure available for allocating scarce goods. It is sometimes argued that the wartime expansion of commodity taxes on durables, in Western countries, was intended more as a means of supporting the rationing mechanism, and reducing the need for rationing, than for absorbing purchasing power.[85]

In actual practice commodity taxes will have demand-shifting as well as demand-absorbing effects. Commodity taxes will decrease the willingness to spend on the taxed commodities, but increase demand for substitutes (or for the taxed commodity after the tax lapses). Commodity taxes will be demand-absorbing to the extent that they increase consumers' total spending (including tax) on the taxed commodities, and thus reduce the demand for other commodities.[86] To the

extent that it is demand-shifting, a commodity tax cannot be considered a deflationary device. The same point can be put somewhat differently. In a period of inflation, higher rates of commodity taxes on goods, the demand for which is *price-elastic*, will reduce aggregative spending on them. Incomes will, therefore, be freed for use elsewhere. Conversely, higher rates on goods, the demand for which is *price-inelastic*, will raise tax collections and aggregate spending on them, and, hence, absorb incomes.

While it seems implausible that commodity taxes are likely to be as inflationary as deficit financing, the milder contention that their impact on wage rates may make them inflationary in the usual sense (of rising commodity and factor prices) may well be true for some countries. While increases in the British purchase tax, Canadian excise duties and Danish excise duties, have all been used as anti-inflationary devices,[87] a few countries have regarded *reductions in* commodity taxes as anti-inflationary devices. Some European countries hold the view that an increase in commodity taxes might worsen the inflationary situation by accentuating the wage-price spiral. Thus, Belgium regularly, and France on occasions, have *reduced* indirect taxes as an anti-inflationary device.[88]

Where a wage-price link exists, the effectiveness of a rise in commodity tax rates as an anti-inflationary device will be substantially reduced. If the wage-price link is sufficiently strong, a rise in commodity tax rates may have no anti-inflationary effect at all.

It is impossible to say *a priori* whether commodity taxes will have more of an anti-inflationary impact than other taxes of equal yield. In practice, the extent of the anti-inflationary impact of a tax will depend on a number of institutional factors. It has been argued that the view that all taxes of equal yield have much the same anti-inflationary effect seems nearer to the truth than recent contentions that taxes differ greatly in this respect.[89]

2. Additional Considerations

A. Tax Awareness

There is a sharp diversity of opinion on the question of whether the fact that commodity taxes tend to be partially 'hidden' (not fully noticed by the consumer) should be considered an advantage or disadvantage. A number of economists subscribe to what might be called the 'expediency theory' of taxation. It is argued that the best way to raise needed revenue is by levying taxes which cause the taxpayer as little 'pain' as possible. Taxes which are partially hidden to the taxpayers will impose less of a burden than taxes of which the taxpayers are fully aware. Not only will 'hidden' taxes enable the raising of any given level of revenue with a minimum of 'burden' on the taxpayers, but they might make it easier to raise higher levels of revenue. It is easier to impose concealed tax burdens than tax burdens which everyone feels and recognizes clearly for what they are. Thus, it is argued that especially in underdeveloped countries where there is a strong need to increase tax revenues, it is desirable to use 'hidden' taxes. Those economists who place considerable emphasis on the need for increased tax revenue, are frequently prepared to argue for primary reliance on those taxes which are least unpopular (which are generally felt to be the 'hidden' taxes).

The majority of economists seem to take the opposite view that 'hidden' taxes are bad taxes. It is argued that it is immoral and unworthy of governments to take advantage of such tax burden illusions, and that the real burden of taxes should be made clearly evident, so as to permit a proper evaluation of the costs and benefits of government expenditures. The argument

that direct taxes are preferable to indirect or 'hidden' taxes because they enable the voter-taxpayer to better judge the opportunity costs of public expenditure, has been put forth most strongly by Henry Simons, who contended that:

> We should seek maximum directness in federal taxation, i.e. minimal concealment and fullest exposure of his actual tax burdens to every individual. Reliance on revenue tariffs, on tobacco, beer, and liquor excises, on sales taxes, on corporation taxes, i.e. on levies whose burdens few voters apprehend, makes for irresponsible government and irresponsible finance. It is a policy of necessity for insecure governments and backward countries. It is a proper technique in more advanced nations where a governing faction aspires to permanent and irresponsible power....It makes for popular indifference both to the level of spending and to the economic allocation of funds among activities.[90]

Musgrave has also argued that:

> taxes that are not noticed will create the illusion of costless public services, and thus invite faulty budget determination.[91]

This argument that the awareness of the full burden of taxation on the part of taxpayers will result in (or at least help in) attaining the optimum level and the optimum allocation of government expenditures, has been given far more importance than it deserves. This proposition is quite unrealistic in assessing the directions from which influences on government expenditures ordinarily emerge. No matter how well-informed about his tax burden, no citizen is likely to be on the side of restraint against more expenditure on improvements in his own locality, which are to be paid for by the people as a whole. It is not easy to discern the manner in which taxpayer's knowledge of the full burden of taxation, influences the determination of the desirable level of defence expenditure.

While one would probably not wish to argue that the less people know about the taxes they pay the better, this writer is inclined to agree with Kenneth Eaton that:

> there are scant grounds for believing that minor degrees of exactness in tax knowledge will lead into greater wisdom in the pattern of expenditure by political authorities.[92]

While this writer does not attach much importance to the degree of taxpayer's awareness of various taxes in an underdeveloped country, it is important to point out that the various kinds of commodity taxes are likely to differ considerably in this respect. It is generally felt that the farther is the point of levy of a commodity tax from the consumer, the more likely is the tax to be 'hidden' from the consumer. Some economists consider it a merit of considerable importance that with a commodity tax levied at the retail level the consumer knows precisely the amount of tax he has to pay, whereas with a tax at some higher level (at the wholesale or manufacturing stage) he cannot easily know the tax content of the price he pays to the retailer.[93] The support or criticism of commodity taxes on grounds of their 'hidden' burden, does not apply to the retail commodity tax, to the extent that this tax is assumed to be passed on to the consumer.[94]

B. Income - Elasticity

In recent years it has become fashionable to regard a high degree of income-elasticity in the tax system as a desirable attribute. Similarly, the degree of income-elasticity has become a criterion for judging the relative merits of various taxes. In developed countries a high degree of income-elasticity is desired because of its anti-cyclical effects. A tax with a high degree of income-elasticity is regarded as an automatic stabilizer which helps to mitigate the business cycle. In underdeveloped countries, on the other hand, income-elasticity is desired for other reasons. It serves to mobilize an increasing share of incremental income and thus facilitates a shift of resources to the government. It

is sometimes argued that it is politically easier to increase revenues by making the tax system income-elastic, than by introducing new taxes or raising the rates of existing taxes. It is felt that tax-payers are more willing, or less reluctant, to let the government collect increasing revenues at the existing rates of taxation, than to permit rate increases and/or the imposition of new taxes.[95]

One Indian economist has gone so far as to regard the income-elasticity of the tax system as the secret to economic growth. He comments as follows:

> While the need is thus, for a very significant enhancement of the ratio of tax to national income it is not feasible politically or economically, to raise taxation to a very high level all at once. Frequent legislative measures to enhance tax rates, to extend the tax base and to increase the number of imposts may be unpalatable (even to the legislators) and often impracticable as they invite increasing resistance on the part of tax-payers as also create uncertainty in tax structure which is so inimical to sustained growth of business and industry.[96]

Thus, he emphasizes the importance of income-elasticity in the tax system.

In addition to the above line of support for income-elasticity, there is what is essentially an equity argument used in its favour. It is widely believed that in attempting to increase the ratio of tax revenue to national income the government should aim at taxing a part of the *additional* income generated in the process of growth.

> This means generally that more taxes should be taken from those whose income-expenditures have risen. This is exactly what happens if the tax system is income-elastic. If the existing pattern of taxation is such that increases in income are caught in the tax net as they occur or as they are spent, it follows that additional contributions are collected from those whose incomes have risen. By contrast, many measures of additional taxation fall indiscriminately on persons whose real incomes have remained constant or fallen as well as on income-gainers.[97]

In brief, deriving increased revenue via an income-elastic tax system rather than increased rates of new taxes is favoured for three reasons: (1) it is less 'painful', (2) it effectively absorbs additional income

generated by the growth process for the government; and (3) it provides this additional revenue for the government in an equitable manner.

A number of economists feel that the Indian tax structure, which relies heavily on consumption taxes, does not have a very high degree of 'built-in flexibility', or income-elasticity.[98] Chelliah feels that "the revenue from excises has been very inelastic with respect to price and money income changes", and he attributes this to the fact that excise duties are mostly specific.[99]

Actually, there is no empirical evidence for the contention that Indian commodity taxes are income-inelastic. Chelliah's contention that excise taxes are very inelastic with respect to income is definitely incorrect. In fact, both sales taxes and excise duties are income-elastic, with the sales tax showing a higher degree of income-elasticity as a result of its greater *ad valorem* nature.

While in general one might expect the revenues from a sales tax or widespread excise tax to grow, approximating proportionally the growth in national income *ceteris paribus*, there are certain factors operating in an underdeveloped country which make it quite likely that the income-elasticity of such taxes will be greater than their unity. First of all, the monitized sector of the economy will tend to expand relatively rapidly during the early stages of development. This results in an increase in the *effective* tax base of commodity taxes. Another factor which may result in such commodity taxes being income-elastic is the widespread evasion which accompanies them. In these circumstances it may be possible to obtain an income-elasticity greater than unity from sales and excise taxes over a considerable period of time, through improved tax administration.[100] As development proceeds and administrative capacity improves there is considerable room for increasing the coverage of the existing taxes; collection of sales taxes can spread out from the predominantly urban areas to more rural areas and both excise and sales taxes can be

extended to the smaller producers and sellers of taxable goods. Thus, the improvement in tax administration may increase the income-elasticity of the tax system by reducing evasion, extension of coverage to more rural areas and extension of coverage to smaller producers and sellers.

R.J. Chelliah has suggested two additional factors which might make sales taxation income-elastic. He states that:

> *A priori* it seems that the general sales tax should be income-elastic in a country like India because (a) a number of commodities which are subject to high income-elasticity of demand are taxed at rates higher than the average rate of tax; (b) it is not uncommon that the same commodity is taxed more than once (by two different States and under the Central Sales Tax Act), so that sales tax revenue can be expected to increase faster than output......[101]

While the first of the above factors suggested by Chelliah would result in an income-elastic tax, there is no reason why the second factor should. The mere fact that a commodity is taxed at more than one point does not lead one to expect that tax revenue will increase faster than income.

Elasticity is essentially a concept which seeks to describe the relationship beween relative changes in two variables. Income-elasticity of taxation (or of any one tax) is a measure of the degree of response in tax revenue to changes in national income.[102] It excludes increases in tax revenue due to the addition of new taxes or an increase in the rates of existing taxes.

Another elasticity concept has sometimes been used in the analysis of taxation. This is 'rate elasticity' which measures the increase in tax revenue relative to the increase in tax rates.[103]

Sometimes increases in tax revenue due to increases in income are combined with increases due to the addition of new taxes and the increase in the rates of existing taxes, to arrive at a concept which is usually referred to as the 'buoyancy' of the tax system. 'Buoyancy' is nothing more than a measure of the total change in tax

revenues (no matter what the cause), divided by the change in income between the two points in time. It is a measure of the extent to which the tax system (or a specific tax) has succeeded in increasing revenue relative to the increase in income which has occurred during the same period of time. The term 'buoyancy' probably is rather misleading as it sounds a bit too much like 'built-in flexibility', but it has gained wide acceptance and will be retained here.

The pioneering, and probably still most widely referred to, study of income-elasticity of Indian taxes is that by Sahota.[104] Hence, it might be desirable to review his findings. His results were based on a study of the period between 1951-2 and 1957-8.

A major finding of the study was the low degree of elasticity shown by the Indian tax system during the period 1951-2 to 1957-8. The elasticity of all Union taxes taken together was found to be only .613. Rather surprisingly, the income tax as a variable of national income showed an elasticity of only .565. The corporation income tax showed an elasticity of 1.25, while Central excises as a variable of national *expenditure* showed an elasticity of 1.610, and the motor vehicles tax as related to national income an elasticity of 1.917.[105] Thus Sahota's analysis indicates that during this period the personal income tax was very income-inelastic while Union excise duties were very income-elastic.

While Sahota's data should be used with care, and his conclusions should definitely not be assumed to hold for other periods,[106] his study can be considered as revealing that in India the income tax has no superiority over consumption taxes in terms of income-elasticity.[107]

The importance of income-elasticity in the Indian tax system tends to be greatly exaggerated. The considerable increase in tax revenues in India since Independence was largely the result of an increase in rates and extension of coverage, and it is likely that if tax revenue as a percentage of national income is to continue to increase,

it will be mainly because of further increases in coverage and increases in rates, rather than because of increased elasticity in the tax system.

It is unlikely that India will be able to continue to increase its tax revenues at the rather spectacular rate achieved upto 1964-5. During the period between 1952 and 1962, India had a higher 'elasticity of effort' or buoyancy in its tax system than any other country in Asia. For every one per cent increase in income during this period there was a 2 per cent increase in tax revenue.[108]

C. Shifting of Commodity Taxes

There is considerable controversy as to whether commodity taxes are shifted forward or backward. As with other economic problems, the common practice has been to analyze incidence by assuming conditions which are relatively easy to examine, and then modifying results as more restrictive (and realistic) conditions are introduced. What might be termed the 'classical argument' that commodity taxes are shifted forward was a partial equilibrium analysis assuming pure competition. Under conditions of pure competition, the individual firm has no control over price. In order for there to be forward shifting of a tax an increase in price was necessary. The tax was looked upon as increasing the producers' costs. In this classical analysis the adjustment to the tax was on the supply side. The reduction in supply (and the increase in price) came about as marginal firms were forced out of operation by the tax.[109]

This argument that commodity taxes are shifted forward has been attacked in recent years by a school

of thought which maintains that the commodity tax is shifted backward to income receivers.[110] The basic objection of this school of thought to the 'classical analysis', is that the reasoning stops too soon and overlooks the consequences of the reduction in output of the taxed commodity. It is argued that when output (supply) is cut back, then necessarily the demand for purchased resources used to produce the taxed commodity will also decrease. Thus, the money income of the owners of these productive resources (whether of a labour, raw material or capital nature) will be reduced as well, and consequently, the demand for goods purchased by these resource owners, as consumers, will be reduced. The money income of the economy as a whole will be reduced. There is no price rise for the taxed commodities, instead the tax is eventually paid by resource owners in the form of lower incomes. In brief, it is argued that the incidence of the tax is shifted backward to the owners of productive resources.

In reference to a general commondity tax under purely competitive conditions both approaches to the shifting of the tax seem logical and plausible. Both approaches to incidence become blurred when monopolistic or oligopolistic market conditions are considered. While arguments on both sides of the controversy can be presented at a more sophisticated level, theoretical analysis remains inconclusive as to whether commodity taxes are shifted forward or backward.

In practice, it seems likely that commodity taxes are shifted *both* forward and backward and the interesting question becomes the extent of the shifting in each direction. Forward shifting is more likely where demand is inelastic rather than where it is elastic and under decreasing cost rather than increasing cost conditions.

D. Commodity Tax Incidence

One cannot probe very far into either the theoretical or the practical problems of commodity taxation without running into the problem of shifting and incidence. Following Seligman,[111] students considering this problem have usually distinguished three stages, or aspects, of the process of shifting. First a distinction is made between *impact* and *incidence*, the first being the initial and the latter the ultimate burden of the tax. The *impact* is on the person or business which is required by the tax law to make the payment to the Government. *Incidence*, on the other hand, is usually defined as the point where the direct money burden of the tax settles or comes to rest. All the consequences of a tax not included within either impact or incidence are usually considered as *effects*. The effects may be either an economic consequence collateral to the incidence, or too remote from the imposition to be included as a part of the direct money burden of the tax. In practice, economists differ in their distinctions between incidence and effects, and in their definitions of the scope of the two concepts.

Musgrave has proposed a somewhat different definition of incidence. He suggests that incidence should cover all the distributive effects of a tax, that is, the changes in real income which the tax induces.[112]

Initially economists tended to limit the problem of incidence to one of ascertaining the effect of the tax on the price of the taxed article—all other reactions to the tax being classified as effects.[113] Modern economists have tended to consider the problem of incidence as encompassing the distributional results of the tax. Thus, incidence is defined as the pattern of the final distribution of the burden of the tax among various income groups. Musgrave has carried this tendency all the way, and proposed that incidence be thought of as covering all the distributive effects of a tax, that is, the changes in real income which the tax induces.

In brief, the nature of the incidence problem has tended to shift from the earlier partial equilibrium analysis of the price effects of the tax, to the current general equilibrium analysis of the distributional effects of a tax.[114]

It is sometimes pointed out that if there really is complete forward shifting of consumption taxes, then it is hard to explain the strong resistance of the business community to the introduction (or raising of rates) of these taxes—as they are able to pass the full burden of the tax onto others anyway. However, the fact that consumption taxes may be shifted to the ultimate consumer does not mean that the firm engaged in the production or distribution of the taxed commodities remains unaffected by them. The firm's gross sales, and, therefore, its profits, are influenced by commodity taxes. Neither does 'complete' forward shifting necessarily imply that the price will be increased by the exact amount of the tax. A reduction in the number of firms, or a reduction in the turnover of each firm, may affect unit costs, with the result that the price the consumer pays, after all the adjustments to the new tax, may be higher by either more or less than the amount of the tax.

Quantitative analysis of the distributional effects of taxation is beset with numerous difficulties. As Musgrave has pointed out:

> Such estimates involve an uneasy marriage between theoretical hypotheses on the incidence of various taxes by broad economic categories of factor shares and consumer outlays, and the translation of these hypotheses into distributional changes by size brackets of income. The result, therefore, is a quantification of theoretical deductions, rather than empirical evidence in the econometric sense.[115]

The ability to shift taxes is necessarily linked with the rigidities in the economy and any assumptions made in carrying out such an analysis will be subject to a considerable amount of guesswork. Hence, the usefulness of the conclusions that emerge from a quantitative analysis of effective incidence is somewhat un-

certain. The determination of formal tax incidence, no matter how painstaking, does not provide an adequate picture of the ultimate effects of a tax. To get an adequate picture of the ultimate effects it is necessary to know the real incidence of the tax, and the ultimate benefits received from the expenditure of the Government tax funds. However, all this does not mean that a more limited study of formal tax incidence is not of some real value.

The basis for the contention that excise and sales taxation in India is quite progressive is the incidence study undertaken by the Taxation Enquiry Commission and later brought up-to-date by the Department of Economic Affairs of the Finance Ministry.[116] While these studies are unsatisfactory in many ways, they are superior to anything available for other underdeveloped countries.[117] In fact, this incidence study can probably be considered as the first (and perhaps only) systematic study of the incidence of indirect taxes in an underdeveloped country. In brief, the study is too good to be dismissed, but not good enough to be accepted without reservations.

The study sought to determine the incidence of Central and State indirect taxes on rural and urban households in different expenditure groups. While it was felt that it would have been preferable to base the study on income groups rather than expenditure groups, data on income received by different households was not available. Thus, the study was based on the existing National Sample Survey consumer expenditure data. This data was not especially suited to the purpose of the incidence study. Moreover the reliability of the National Sample Survey data leaves much to be desired. A further limitation of the data is that expenditure is stratified by household, and not on a per capita basis. Even with these limitations the study is more concrete and reliable than other attempts to ascertain the incidence of taxes in underdeveloped countries. Like similar studies in other countries, the allocation of tax

burden attempted in this study proceeds on the assumption that the incidence of consumption taxes rests on the final purchasers of consumer goods.

The 1953-4 study indicated that Central excise duties were mildly progressive in both the rural and urban areas. The study indicated that in each of the first four expenditure groups the urban sector paid twice as much in the way of excise taxes as their rural counterparts.[118]

The 1953-4 study also indicated that sales taxes were mildly progressive in both the rural and urban areas. As was the case with excise taxes, the rural sector paid substantially less than the urban sector within each expenditure group.

The 1958-9 study indicated that the progressivity of both sales taxes and excise taxes and in both the rural and urban sectors had increased considerably since 1953-4.[119] In 1953-4 the Central excise tax as a percentage of consumer expenditure had been less than two times as great for the Rs. 300 and over (per month) expenditure group as for the lowest expenditure group (Rs. 1-50 per month). In 1958-9, on the other hand, the Central excise tax burden of the highest expenditure group was 2.6 times that of the lowest group. Similarly, in 1953-4 sales tax as a per cent of consumer expenditure had been only 1.6 times larger for the highest expenditure group than for the lowest expenditure group, while by 1958-9 it was 2.8 times larger.

Perhaps even more surprising was the fact that between 1953-4 and 1958-9 the Central excise duty as a per cent of consumer expenditure for all households increased from 1.0 per cent to 2.7 per cent. The corresponding increase for sales taxes was from 0.7 per cent in 1953-4 to 1.0 per cent in 1958-9.

The 1958-9 data indicate that the Central excise duties are very progressive throughout the expenditure groupings, while sales taxation is very progressive only at the lower and upper ends of the expenditure scale (the extent of progressivity being very much less among

the middle expenditure groups).[120] However, this finding of substantial progressivity in both the Central excise duties and in sales taxes should not be accepted without some qualification. It is very unlikely that these taxes are as progressive at the upper end of the expenditure scale as the data seem to indicate. First of all, the data for the upper expenditure group are probably less reliable than for the other expenditure groups, being based on a small and less homogeneous sample. If the upper open-ended monthly household expenditure group of Rs. 300 and above had been broken down into a number of additional expenditure groups, it seems likely that some amount of regressivity would eventually appear in the highest expenditure groups. More importantly, basing the incidence study on expenditure patterns (rather than income) overstates the progressivity of the impact of these taxes on taxpayers in the higher income groups, who can be expected to save more than the poorer classes. In brief, then, it is likely that basing the study of tax burden on consumption expenditure rather than on income makes the tax appear more progressive at the upper end of the expenditure scale than if an income scale had been used.[121]

It might also be mentioned here that the revenue from State excise duties (which are primarily on liquor) was about .4 per cent of total consumer expenditure in both 1953-4 and 1958-9. While the 1953-4 study revealed State excise duties to be roughly proportional at the lower end of the expenditure scale and regressive at the upper end, the 1958-9 study revealed a rough proportionality over most of the expenditure scale and progressivity at the upper end.

Summary

Perhaps the main conclusion of the foregoing discussion is that it is not possible to make a general case in favour of direct or indirect taxes. Much of the theoretical discussion concerning direct or indirect taxes seems largely irrelevant to practical tax policy.

It was pointed out that there is now widespread agreement that in choosing between an income tax and a commodity tax not much importance should be attached to the 'incentive to work' argument. Similarly, no general indictment of income or commodity taxes on neutrality (allocation) grounds is valid. Both types of taxes result in 'excess burdens' and the whole excess burden discussion gives very little guidance to tax policy in the real world. While the developed countries seem to be increasingly concerned with the neutrality of their tax systems, the underdeveloped countries in general, and India in particular, tend to give very little emphasis to neutrality considerations in their tax systems.

There is general agreement that taxes should be equitable, but considerably less agreement on what exactly would be equitable. There is widespread agreement that taxes, or at least the tax system as a whole, should be progressive, but little agreement on just how progressive they should be. Equity is a political and not a strictly economic concept. It would be desirable to look at the equity of the tax system and public expenditure taken together. However, since not very much is known about the distribution of public expenditures, equity is usually discussed in terms of specific taxes or in terms of the tax system as a whole.

The most frequent criticism of commodity taxation is that it is regressive. In India it is widely believed that commodity taxation by its very nature must be regressive. However, the available evidence indicates

that consumption taxes in India are progressive with respect to expenditure classes. While consumption taxes in India are undoubtedly somewhat less progressive with respect to income classes, they are nevertheless probably at least mildly progressive up to fairly high levels of income.

While it is possible to make commodity taxes progressive, it is much more difficult to do away with what might be called their capriciousness. Commodity taxes bear more heavily on large families than on small families within every income group. Moreover, families of the same size and income are likely to bear considerably less of a commodity tax burden if they are rural than if they are urban. Criticism of Indian excise and sales taxes on grounds of their regressivity has been greatly overdone. It is the horizontal inequities of the commodity tax systems which are more serious.

Levying a tax on consumption, rather than income, has the effect of increasing the rate of return available on savings. However, it is not certain that this will stimulate additional savings. Since there is considerable uncertainty as to whether the total volume of savings is positively correlated with the interest rate, not much importance should be assigned to the incentive effects of differences in rates of return on savings that are obtainable under taxes on income or consumption.

The belief that an income tax is likely to fall more heavily on savings than a consumption tax of the same yield frequently leads to the conclusion that a consumption tax is a more effective anti-inflationary device. It is likely that a commodity tax will be more effective as an anti-inflationary device if it is known to be temporary. However, the general conclusion that temporary consumption taxes are likely to be more potent than temporary income taxes as anti-inflationary devices must be qualified if there is a wage-price spiral, or if inflation is of the cost-push variety. It is impossible to say *a priori* whether commodity taxes will have more of an

anti-inflationary impact than other taxes of equal yield. In practice, the extent of the anti-inflationary impact of a tax will depend on a number of institutional factors. It is likely that all taxes of equal yield have much the same anti-inflationary effect.

The degree of tax-payer awareness of various taxes is unlikely to really affect the optimum allocation of Government expenditures.

In India there tends to be considerable exaggeration of the importance of income-elasticity in the tax system. Moreover, the available data seem to indicate that the income tax has no superiority over consumption taxes in terms of income-elasticity.

The theoretical discussion on the shifting and incidence of commodity taxes has become split between those who feel that commodity taxes are shifted forward and those who feel that they are shifted backward. In practice, it seems likely that commodity taxes are shifted both forward and backward in India, and the interesting question becomes the extent of the shifting in each direction. All 'empirical' studies of the incidence of commodity taxes have simply assumed complete forward shifting. On the basis of this assumption, both sales and excise taxes have been found to be progressive with respect to expenditure classes.

Much of the literature on taxation in developing countries is devoted to discussions of the pros and cons of direct and indirect taxes. Unfortunately, much of this discussion is largely irrelevant to policy makers. There is much to be said for increased reliance on personal income taxation in India as long as one ignores administrative considerations. While there appears to be little doubt that in the long run, the income tax should become a more important source of revenue, it does not appear possible to obtain significant increases in revenue from either the personal or corporate income taxes in the near future. The rates of both types of income taxes are already among the highest in the world. While the base of the personal income tax in India is

still very narrow, it does not appear administratively possible to enhance the base greatly in the near future. It was conceded in the *Third Five Year Plan* that the Plan would involve a substantial increase in indirect taxes, because the scope for raising direct taxes any further was limited.[122]

In brief, the factors that have resulted in the tremendous relative increase in the importance of excise and sales taxes since Independence give every indication of continuing for some time to come. The possibilities of increasing revenues from direct taxes—either by extending the coverage or by raising the existing tax rates—appear to be quite limited. The simple fact is that increases in revenue from sales and excise taxes appear to be both politically and administratively the easiest course for the Indian Government to follow. In light of this fact, the rest of this study will be less concerned with the theoretical superiority or inferiority of the sales and excise taxes vis-a-vis other taxes, than with the possibility of rationalizing and improving the existing commodity tax systems in India.

PART II : EXCISE TAXATION

1. Types of Union Excise Levies in Operation Today

The Union Excise Levies which are currently in operation may be grouped into the following categories :

(1) Basic excise duties on a large number of items levied under the Central Excises and Salt Act, 1944 as amended from time to time by the Finance Acts of each year;

(2) Cesses or excise duties levied on certain commodities under special acts[123] the proceeds of the duty being earmarked for specified uses. Cesses are levied on the production of the following commodities : copra, oil extracted from oil-seeds, coal and coke, iron ore, tea, cotton, mill-made cloth, salt and rubber;

(3) Additional duties of excise in lieu of sales taxes on sugar, tobacco and textiles under the Additional Duties of Excise (Goods of Special Importance) Act, 1957;

(4) Additional duties of excise on motor spirit, kerosene, refined diesel oils and vaporising oils, diesel oil not otherwise specified, and furnace oil under the Mineral Oils (Additional Duties of Excise and Customs) Act, 1958;

(5) Special duties of excise on certain goods levied for the first time in March, 1963 in the form of surcharges on basic duties on certain items under the Finance Act of 1963 and later amended by subsequent Finance Acts; and

(6) Regulatory duties of excise levied under the

Finance Acts. This provision enables the executive to vary rates of duties on any item within specified limits.

A. History of Excise Duties in India

Excise duties of various types were collected long before the British arrived in India and even before the Mughal period.[124] Excise duties on such items as dairy products, cloth, sugar, salt and leather were levied during the Mughal period and under early British rule. The excise on salt was an important source of revenue throughout the period of British rule. However, the beginnings of the modern excise system in India are generally said to have been made in 1894, with the levy of a duty on cotton yarn of finer counts and the extension in 1896 to fine cloth.[125] This duty was levied with the intention of improving the competitive position of British cloth in the Indian market. In 1917 an excise duty was imposed on motor spirit and in 1922, on kerosene. By 1920-21, the excise on cotton yarn was yielding Rs. 2.31 crores,[126] which was almost four per cent of the total tax revenue. However this duty was abolished in 1925. Excise duty on silver was imposed in 1930, but the revenue from this duty never amounted to more than Rs. 23 lakhs. Thus, by 1933-4, there were only 3 important excise duties in India. The excise duty on motor spirit yielded Rs. 4.43 crores and that on kerosene Rs. 2.81 crores; together these two excise duties accounted for about eight per cent of the total tax revenue of the Government of India. In that year the excise revenue from salt was Rs. 6.41 crores, or 7 per cent of the total tax revenue.

In 1934, there was a major extension of coverage of excise duties, with new duties being placed on sugar, matches, steel ingots, and mechanical lighters. Sugar and match production had made rapid strides under heavy protection in the years following the First World War and it was felt that they could now be tapped for revenue purposes. Both of these taxes became significant yielders of revenue; by 1940-41 these two excise duties yielded Rs. 6.22 crores[127] which was over 65 per cent of all non-salt excise revenue. The yield from the mechanical lighters duty was negligible, and its main purpose was to protect the match industry. The yield from the excise duty on steel ingots rose to Rs. .5 crore in 1940-41, which was about 5 per cent of total non-salt excise revenue.

There was a considerable increase in excise revenue during the Second World War both as a result of stepping up the rates on existing duties and the levy of excise on several additional products. An excise duty was levied on tyres in 1941, and on vegetable products, cigars, cheroots and unmanufactured tobacco in 1943. In the following year, excise duties were levied on coffee, tea and betelnuts.[128]

The excise duty on tobacco was the first excise to be levied on a product of an un-organised industry, and its enforcement necessitated a considerable increase in the excise staff.

Taxation of salt was an important source of revenue until independence. The revenue from salt was realized mainly through an excise duty on salt, and partly through a customs duty on imported salt. Its share of the total Central Government tax revenues remained fairly constant at about one-tenth between 1920 and 1942. However, with the considerable development of direct taxation and the extension of excises during and after the Second World War, its share declined to less than 3 per cent in the year before the duty was abolished. Mahatma Gandhi had chosen the abolition of salt duty to spearhead his non-

cooperation movement, and it was largely for this reason that salt was exempted from excise duty with the coming of Independence in 1947.

Between 1944 and 1954 only two new excise duties were introduced. In 1948 an excise duty was levied on cigarettes in addition to the existing duty on unmanufactured tobacco. An excise duty on mill-made cotton cloth was imposed in 1949. In justifying this levy the Finance Minister stated that it was necessary to replace the heavy loss in revenue resulting from the abolition of the salt duty, and to provide help to the handloom industry.[129]

By the beginning of 1954 only 13 commodities were subject to excise duties. However, since 1954, there has been an almost phenomenal increase in the coverage of the excise system. Cement, footwear, rayon and artificial silk fabrics, and soap were added to the excise system in 1954, and in 1955, excise duties were imposed on paints and varnishes, paper, woollen fabrics, electric batteries, electric light bulbs and electric fans. In 1956 the following products were subjected to excise: refined diesel oil, furnace oil, vegetable non-essential oils, rayon and synthetic fibres and yarn, and motor cars. Thus, between 1954-6 the number of products subject to excise had more than doubled.

In 1959, asphalt, bitumen and tar became excisable. Then, between 1960 and 1962 there was another major expansion in the coverage of the excise system. In 1960 eleven additional products were subjected to excise duty;[130] in 1961, 16 additional products were subjected to excise duty; while in 1962, ten additional products were subjected to excise duty. Thus, between 1960 and 1962 the number of products subjected to excise duty was again more than doubled. Only a few products were added to the excise system in the next five years. Sodium silicate was excised in 1963, lead and synthetic organic products in 1965, and organic surface active agents (other than soap) in 1966.

In 1968, excise duties were levied on six new commo-

dities, namely, confectionary and chocolates, leather cloth, embroidery, radio-parts, steel furniture and crown corks.

In 1957, on the basis of an agreement between the Centre and the States in the National Development Council, sales taxes on sugar, tobacco and textiles were replaced by additional duties of excise under the Additional Duties of Excise (Goods of Special Importance), Act, 1957. The proceeds of these additional duties of excise are paid to the States.[131]

In 1958 additional duties were levied under the Mineral Oils (Additional Duties of Excise and Customs) Act, 1958. These duties were levied with specific purpose of absorbing certain benefits which the oil companies had derived from reductions in their cost of importing oil into India.

B. Special Excise Duties

In 1963, selective surcharges were levied on the Central Excise Duty on a large number of articles with a view to raising revenue exclusively for the Centre which was then engaging in a major military build-up as a result of the Chinese invasion. While surcharges of various kinds had been levied on income taxes in India, this was the first time surcharges had been levied on excise duties. The surcharges were applied to a majority of the products subject to excise. The surcharges have been officially called 'Special Excise Duties'.

The main purpose of levying surcharges, rather than merely increasing the rates of excise duty, was to reserve the entire resulting revenue for the Centre.[132] The surcharges also had the effect of increasing the *ad valorem* element of the excise system. The surcharges,

which were *ad valorem* by their very nature, were applied to specific as well as *ad valorem* excise duties. The surcharges were presented as a temporary measure necessitated by the Emergency and the Chinese Invasion. However, they have remained in effect ever since their introduction in the 1963-4 budget. Like the British purchase tax, the surcharges were intended to be levied at different rates depending on the extent to which a commodity was regarded as a luxury.[133]

A surcharge of 10 per cent of the excise duty was levied on the following products:

synthetic organic dyestuffs, printing and writing paper, jute manufactures, glass other than plate and sheet glass, china-ware and porcelain-ware, tinplate, internal combustion engines, electric storage batteries, electric light bulbs, motor spirit and diesel oils.

A surcharge of 20 per cent was levied on tea, coffee, unmanufactured tobacco, cigarettes, vegetable products, paints and varnishes, soap, cosmetics, plastics, cellophane, tyres, rubber products, paper other than printing and writing paper, cotton yarn of less than 35 counts, woollen fabrics, artificial silk fabrics, cement, plate and sheet glass, electric motors, dry electric batteries, electric fans, motor vehicles other than motor cars, films and aluminium.[134]

A surcharge of 33⅓ per cent was levied on cigars, rayon and woollen yarn, cotton yarn of 35 or more counts, silk fabrics, refrigerators and air conditioning machinery and parts thereof, radios, radiograms and motor cars.[135]

C. Regulatory Excise Duties

Another major innovation was introduced in the

budget for 1963-4. It was proposed to use the excise (and customs) duty as an 'economic regulator'. While the government already had powers to reduce excise (or customs) duties, it never before had discretionary power to *increase* excise (or customs) duties. The Finance Minister in his Budget Speech for 1963-4 stated that in the existing position it was essential to have the "authority to be able to act at short notice in order to check profiteering, and to regulate resources and demand.[136]

Hence, he proposed that the Government be granted the power to enhance excise duties within specified limits (10 per cent *ad valorem*) in the course of the year. Similar powers were requested and given in regard to customs duty. While there was no occasion for the use of this power during the first year it was introduced, the Finance Minister stated that the continuance of the power was necessary to meet unforeseen price or production changes.[137] Moreover the power to levy a regulatory excise duty was raised from a maximum of ten per cent to a maximum of fifteen per cent. While it has not yet been used, the power to levy a regulatory excise duty has been requested and granted in subsequent years and remains in effect for the current fiscal year. While it remains uncertain as to what specific situation might call for the exercise of this power to levy a regulatory excise duty, the object of of such a power is to be able to adjust fiscal policy promptly in response to changing circumstances.[138] Presumably, its major use would be to restrain consumption during an inflationary period. While there has been quite substantial inflation in the last couple of years (about 15 per cent annually), the generally depressed situation of the economy has apparently inhibited the exercise of the power to levy a regulatory excise duty.

2. Union Excise Tax Revenue

The increase in excise tax revenue, both in absolute and relative terms, has been spectacular. In 1920-21, excise duties yielded a revenue of Rs. 2.85 crores. This represented 4.7 per cent of the total Central Government tax revenue. In both relative and absolute terms, excise tax revenue remained rather static until 1930-31.

Between 1930-31 and 1947-8 there was a more than ten-fold increase in excise tax revenue. By 1947-8, excise tax revenue had increased to Rs. 38.89 crores, and it constituted 11.7 per cent of the total Union Government tax revenue. Since Independence, excise tax revenue has increased by more than 3,000 per cent. According to the budget estimates for 1968-9 excise tax revenue is Rs. 1,249.65 crores and constitutes more than half of all Union Government tax revenue.[139] Out of the total of Rs. 1,249.65 crores, Rs. 1,124.28 crores is from the basic excise duties; Rs. 72.19 crores is from the special excise duties; and Rs. 53.18 crores is from the additional duties of excise.[140]

It is also instructive to compare the increase in excise tax revenue relative to national income.[141] In 1950-51, excise revenue was 0.7 per cent of national income. There was an almost continuous rise in this percentage in subsequent years: by 1956-7, excise revenue was 1.7 per cent of national income; by 1960-61 it was 3.1 per cent of national income; and by 1966-7, excise revenue was 4.3 per cent of national income. Thus, between 1950-51 and 1966-7 there had been a more than five-fold increase in excise revenue as a percentage of national income.

The tremendous relative increase in the importance of excise duties in the Union tax system is clearly revealed

by the fact while there was a more than 514 per cent increase in excise revenue as a percentage of national income between 1950-51 and 1966-7, there was only a 57 per cent increase in the revenue of the other Union taxes as a percentage of national income during the same period: excise revenue as a percentage of national income increased from 0.7 to 4.3, while revenue from all other Union taxes increased from 3·5 to 5·5.[142]

A. Factors Accounting for the Increase in Excise Tax Revenue

Both the Taxation Enquiry Commission and the Central Excise Reorganization Committee made estimates of the extent to which the increase in excise tax revenue was due to (1) increases in consumption; (2) increases in the rates of duty; and (3) increases in coverage. The Taxation Enquiry Commission concluded that "of these three factors, it is the increase in coverage which has been most important. The increase in consumption has also been significant, while the part played by changes in rates of duty is only a minor one."[143] Actually, this statement of the Taxation Enquiry Commission is very misleading. What they should have said was that the increase in rates of duty was rather insignificant in comparison to the over-all increase in prices.

The effect on revenue of changes in rates of duty between two years was estimated by calculating the yield in one year on the assumption that (a) the commodities taxed and (b) the output of these dutiable commodities remained the same as in the other years.[144] It should be noted that such a procedure attributes the increase in revenue that results from increases in

the rates of duty on commodities which were first taxed after the initial date, to increases in coverage. The Taxation Enquiry Commission found that:

> in respect of the commodities subject to excise duty in 1953-4, which were also being taxed in 1938-9, the yield was Rs. 27 crores in 1953-4. Apply the rates of duty in force in 1938-9 to the quantities taxed in 1953-4, the yield would be Rs. 12 crores. Changes in rates alone accounted for an increase in revenue of the order of 125 per cent between 1938-9 and 1953-4.[145]

However, since the price level increased four-fold between 1938-9 and 1953-4, the 'real' rates of excise duty on these commodities were reduced during this period.

The Taxation Enquiry Commission based its statement concerning the relative significance of extension of coverage on the fact that in 1953-4, only 29 per cent of the revenue from excise duties was raised from articles which were subject to duty in 1938-9.

The T.E.C. stated that in order to obtain a measure of the importance of increase in consumption, the effect of changes in the rates of duty and of extension of coverage has to be eliminated. However, it gives no indication as to what procedures or assumptions it used to arrive at this estimate. It merely states that the increase in revenue as a result purely of the rise in consumption between 1938-9 and 1948-9 is roughly 25 per cent and that between 1948-9 and 1953-4, [146] there was a further increase of 27 per cent. While the increase in rates of duty was very moderate in relation to price increases, they accounted for more than twice as much of the nominal increase in excise tax revenue as the increase in consumption accounted for. Thus, it would be more correct to say that it was increases in consumption that played a minor part in increasing excise revenue up to 1953-4 and that the increase in rates played a significant part, while the most important factor was the extension of coverage.

The Central Excise Reorganization Committee provided a better estimate of the relative importance of

the three factors to increase in excise tax revenue. Unlike the Taxation Enquiry Commission, they felt that part of the revenue derived from the taxation of commodities which were not taxed in the base year, should be attributed to increased consumption of, and stepping up of the rates of duty on the articles excised in successive years since 1938-9, and not wholly to the extension of coverage. In arriving at the increase in excise revenue due to additional coverage, the Central Excise Reorganization Committee calculated the actual contribution from additional taxation in the full financial year following that in which each item was first excised, presuming that there was no increase in rates of duty or in consumption.[147]

The Central Excise Reorganization Committee attributes the gross increase of Rs. 415 crores between 1938-9 and 1961-2 to the three factors in the following proportions:[148]

(1) Due to increase in consumption Rs. 66 crores or 16%
(2) Due to increase in rates of duty Rs. 235 crores or 57%
(3) Due to additional coverage Rs. 101 crores or 24%
(4) Due to a combination of these factors Rs. 13 crores or 3%

The Committee apportions the increase in revenue of Rs. 331 crores between 1953-4 and 1961-2 as follows:

(1) Due to increase in consumption Rs. 65 crores or 20%
(2) Due to increase in rates of duty Rs. 191 crores or 58%
(3) Due to additional coverage Rs. 70 crores or 21%
(4) Due to a combination of these factors Rs. 5 crores or 1%

On the basis of the above figures we can apportion the increase in excise revenue of Rs. 84 crores between 1938-39 and 1953-54 as follows:

(1) Due to increase in consumption Rs. 1 crore or 1%

(2) Due to increase in rates of duty Rs. 44 crores or 52%
(3) Due to additional coverage Rs. 31 crores or 37%
(4) Due to a combination of these factors Rs. 8 crores or 10%

The first thing to note in regard to these figures is that there is obviously a mistake in the amounts of excise revenue attributable to increases in consumption. While the increase in revenue due to this factor is placed at Rs. 66 crores for the entire period between 1938-9 and 1961-2, Rs. 65 crores of this is attributed to the period between 1953-4 and 1961-2. This implies that the increase in revenue due to this factor between 1938-9 and 1953-4 was only Rs. 1 crore. There is nothing to lead one to believe such a discrepancy in the impact of increases in consumption between the two periods.[149] There is obviously a mistake somewhere in the calculations regarding the increase in revenue attributable to the increase in consumption (most probably the mistake is in the figure for the period between 1953-4 and 1961-2).

It is important to note the considerable difference in the relative importance of the three factors that result from the different ways of calculating the amount of revenue attributable to extension of coverage. The Central Excise Reorganization Committee's calculations indicate that increase in rates of duty is by far the most important factor, while the Taxation Enquiry Commission's calculations indicate that extension of coverage is by far the most important factor.[150] The Central Excise Reorganization Committee's calculations give a better indication of the relative importance of the three factors, because of their more sophisticated treatment of the contribution attributable to additional coverage.[151]

It should be noted that neither analysis attributes any of the increase in revenue to improvement in the excise administration and reduction of evasion and avoidance. While it is impossible to know how much

of the increase in excise revenue is due to this factor, it should not be entirely neglected.

B. Commodity Breakdown of Excise Tax Revenue

A look at the commodity-wise details of revenue from excise duties reveals that ten commodities each yielded[152] revenue in excess of Rs. 25 crores and accounted for about 76 per cent of the total Union Excise revenue in 1966-7.

TABLE 2

REVENUE FROM HIGH-YIELDING EXCISEABLE COMMODITIES
(1966-67 ACCOUNTS)

(Rs. in crores)

1.	Refined Diesel Oil and Vaporizing Oil	142.27
2.	Tobacco (unmanufactured and manufactured)	126.09
3.	Sugar	109.34
4.	Motor Spirit	87.21
5.	Cotton Yarn and Cotton Fabrics	86.13
6.	Iron and Steel	73.44
7.	Kerosene	49.05
8.	Tyres and Tubes	36.65
9.	Cement	32.17
10.	Matches	25.75
11.	Total for 10 Products	768.03
12.	Total Union Excise Revenue (not including Cesses and Regulatory Duties)	1,011.79
13.	(11 as a per cent of 12)	75.9%

Source : Appendix Table A-5

On the other hand, 9 commodities yielded less than one crore of rupees and accounted for less than 1/2 per cent of the total Union excise revenue in 1966-7.

TABLE 3

REVENUE FROM LOW-YIELDING EXCISEABLE COMMODITIES[153]
(1966-67 ACCOUNTS)

(In Crores of Rupees)

1.	Caustic Soda	0.89
2.	Cellophane	0.85
3.	Vegetable Non-essential Oils	0.78
4.	Soda Ash	0.61
5.	Organic Surface Active Agents	0.60
6.	Acids	0.59
7.	Zinc	0.25
8.	Glycerine	0.14
9.	Gramophones and Records	0.14
10.	Total for 9 Products	4.85
11.	Total Union Excise Revenue (not including Cesses and Regulatory Duties)	1,011.79
12.	(10 as a per cent of 11)	0.48%

There has been a considerable amount of criticism of the retention of excise duties on items which yield little revenue.[154] It is argued that the excise revenue from such items is not commensurate with the expenses and administrative effort required for the collection of the duties. Hence, it is felt that the excise duties on items yielding a meagre revenue should be abolished, and more attention devoted to the proper administration of the more remunerative excise duties. A small increase in the rates of the more remunerative excises can more than make up for the loss of revenue from abolition of the less remunerative excises. This view

seems to have gained a degree of acceptance in the Finance Ministry, as in recent years a number of excise duties have been removed on items which yielded low revenues. The Finance Minister's Budget Speech for 1964-5 stated that: "One of the essential conditions to be fulfilled by indirect taxes is that the revenue from the items on which such taxes are imposed is sizeable."[155] Applying this criterion he proposed the removal of excise duty on the following items: gramophone records, all gases other than carbon dioxide used for the manufacture of aerated waters, low voltage electric motors and all acids other than sulphuric acid.[156] In his 1965-6 Budget Speech, the Finance Minister also proposed the removal of excise duties on such items as silk fabrics, gramophones, cigars and cheroots and silver, on grounds of their insignificant revenue.[157] Thus, the notion that excise duties should yield a significant revenue appears to have already been accepted by the Finance Ministry.

In deciding whether an excise duty on a specific item should be removed on grounds of insignificant revenue, it is desirable to give some consideration to likely future revenue as well as present revenue. Thus, while the excise duty on cellophane presently yields less than one crore of rupees, it is likely to yield considerably more revenue in the near future, and should not be abolished on grounds of its insignificant revenue yield at present.

3. Excise Duties and the Allocation of Resources

The fact that excise duties can be used to encourage or discourage particular types of resource utilization, as well as to withdraw purchasing power from the private sector in general, make them a potentially powerful instrument for directing allocation of investment resources by the private sector, and the use of resources by both the private and the public sector. Excise duties have been widely accepted as a suitable means of economic regulation and of influencing the allocation of resources.

A. Preference for Small-Scale Industries

Since the beginning of the First Five-Year Plan, India has adopted a policy of promoting the development of village and small-scale industries. This encouragement of village and small-scale industries aims at fuller employment, a more equitable distribution of national income and general acceleration of the economic rehabilitation of rural areas.[158] In order to encourage the growth of small-scale industries, incentives in various forms have been provided including preferential rate of, or exemption from, excise duties.[159]

It appears that official thinking in regard to small-scale industries is that if they are to make their full contribution to the national economy, then these

industries must to the maximum extent possible be complementary to and not competitive with organized industries, and they must aim at becoming self-reliant and self-supporting by adopting 'improved techniques and more efficient forms of organization'.[160] Thus, the Third Five-Year Plan placed greater reliance on more positive forms of assistance in order "to reduce progressively the role of subsidies, sales rebates and sheltered markets"[161] for the produce of small-scale industries. In spite of the intentions expressed in the Third Five-Year Plan there was no reduction in the use of excise duties to provide special advantages for small-scale producers, during this period.

The Taxation Enquiry Commission stated that one reason for excise concessions and exemptions was the administrative problem of keeping a check on the production of scattered small-scale producers.[162] The Commission felt that the administrative justification for exemption had particular force with regard to the soap and footwear industries. It pointed out, however, that:

> even in respect of these articles—the exemption is not restricted to the smallest producers who present the greatest administrative problem.[163]

The Commission went on to point out two economic considerations which it felt would justify the use of exemptions and rate differentiation.

> One is the higher cost of production of the smaller producer and his relatively lower ability to bear taxation. The other is the desirability of encouraging production by labour intensive methods. . . .[164]

Apparently, the T.E.C. felt that inefficiency deserves protection if it results in increased empolyment.

B. Types of Excise Exemptions and Concessions

The excise tax exemptions and concessions for village

and small-scale industries are granted on a number of different bases, such as the number of workers employed in a factory, non-use of power or machinery, type or size of organization, differentiation of product and scale of output. The following types of exemptions might be distinguished:

(1) Total exemptions related to the number of workers employed:
  (a) China-ware and porcelain-ware (15 workers)
  (b) Glass and glass-ware (5 workers)
  (c) Electric batteries (5 workers)

(2) Total exemption related to whether power is used in the production of the commodity:
  (a) Chocolates and confectionery produced without the aid of power.

(3) A free slab for all manufacturers regardless of the volume of production:
  (a) Soap produced in both power operated and non-power operated factories.
  (b) Processed cotton fabrics produced by independent processors.

(4) Preferential slabs for specified quantities to all manufacturers:
  (a) Matches
  (b) Cycle tyres and tubes[165]
  (c) Vegetable non-essential oils

(5) Conditional free slabs up to specified quantities; but the entire production becoming liable to duty at the standard rate if the production exceeds the free slab:
  (a) Plywood
  (b) Nitric and hydrochloric acids.

(6) A free slab followed by preferential slabs for specified quantities, but the entire production becoming liable to duty at the standard rate if the production exceeds the free and concessional rate slabs:
  (a) Paints and varnishes.

(7) Free slab followed by preferential slabs for the whole range of production:

(a) Strawboard

(8) Partial exemption related to duty-paid materials used:
- (a) Steel (pig iron duty)
- (b) Iron and steel products (pig-iron and steel duty)
- (c) Aluminum manufactures (ingot duty)
- (d) Copper manufactures (copper ingot duty)
- (e) Motor vehicles (engine duty)
- (f) Refrigerators and air-conditioning appliances and machinery (electric motors and parts duty)
- (g) Footwear (component parts duty)[166]

(9) Partial exemption based on nature of the raw materials used:
- (a) Matches made from bamboo splints
- (b) Plywood and insulating board made out of bagasse and straw
- (c) Vegetable product made from cotton seed oil

(10) Total exemption related to final product made:
- (a) Glass (made into glass beads and bangles)
- (b) Copper strips and foils (made into zari and trinkets)
- (c) Internal combustion engines (fitted to agricultural tractors)

(11) Total exemption related to end-use of goods:
- (a) Tyres (for animal drawn vehicles)
- (b) Coffee (seeds used for sowing)
- (c) Jute batching soap (used in jute industry)
- (d) Iron and steel products (rails and sleeper bars for railway track)

(12) Partial exemption related to end-use of goods:
- (a) Jute batching oil used in jute industry
- (b) Paper used in printing of newspapers, text books and books of general interest
- (c) Plywood for tea chests
- (d) Raw naphtha and ammonia for fertilizer

(13) Preferential slabs where production in each of the preceding 12 months did not exceed specified

maxima :
(a) Internal combustion engines
(b) Electric motors
(14) Free slab related to production in each of the preceding 12 months :
(a) Cosmetics and toilet preparations
(b) Nitric and hydrochloric acids[167]
(15) Free slab followed by preferential slabs, if production did not exceed specified maxima in any of the preceding 3 years :
(a) Pulp board, grey board and mill board
(16) Total exemption related to number of units of equipment used :
(a) Cotton and silk powerloom fabrics (number of powerlooms in operation)
(17) Exemption related to use within factory of production :
(a) Oxygen for fertilizers
(18) Partial exemption related to place of production :
(a) Kerosene
(b) Tea not otherwise specified
(19) Exemption to co-operatives
(a) Cotton powerloom fabrics.[168]

In brief, then it can be said that the Indian excise system embodies a wide variety of exemptions and concessional rates. Some of these concessions and exemptions are far more justifiable than others. For instance, the partial exemption for use of duty-paid materials and the exemption related to use within the factory of production are probably justified. The latter situation is administratively difficult to tax, and such an exemption does not result in any significant loss of revenue. The partial exemption for use of specific duty-paid materials where such materials constitute a major portion of the cost of the final product would also seem to be desirable.[169] However, the introduction of a universal exemption for all duty-paid materials used in the process of production would lead to severe administrative difficulties and must be rejected on this ground alone.

The other exemptions and concessions unrelated to the encouragement of small-scale industries are somewhat more questionable. The partial exemption based on the nature of the raw material used seeks to encourage the use of relatively abunadant (but slightly inferior) raw materials. The instances in which this type of exemption (see item 9 above) has been used appear reasonable in light of the desire for conservation of the alternative raw materials in India.

The total exemptions related to final product made (see item 10 above) are undesirable and should be done away with.[170] However, it is not so easy to say the same in regard to the partial and total exemptions related to the end-use of goods. The exemption for raw materials used in the jute and fertilizer industries raises the issue of whether excise duties should apply to any raw materials at all. This issue is discussed more fully in another section. The exemption for tyres used on animal drawn vehicles is largely superfluous in India, where wooden wheels predominate, and is difficult to enforce. Similarly the exemption for plywood used in tea chests introduces too much in the way of evasion possibilities and administrative difficulties to be worthwhile. Such narrow exemptions generally result in more loss of revenue by way of evasion (or administrative costs in preventing the evasion) than gain to the intended recipients.

Most of the remaining concessions and exemptions represent diverse means of encouraging small-scale industries. These have been criticized as being rather blunt instruments, liable to produce results different from those intended. The greatest criticism of exemptions and concessions in favor of small-scale industries is that they encourage fragmentation and/or restrict expansion. In addition they seem to facilitate corruption of the excise administration. Referring to these concessions and exemptions the Chanda Committee pointed out that:

Manipulation of accounts and other malpractices also

> become increasingly tempting. As the concessions are actually administered through assessment of individual consignments, the scope for collusion and the development of corrupt practices increases .... All this adds up, firstly, to reduce revenue, and, secondly, to increase manipulations and malpractices .... Concessions are also sought to be fortified against abuse by hedging them in with additional conditions. Complexities of the administration increase further and as these proliferate, the scope for corruption increases in proportion.[171]

When there are free slabs or when the rates of levy rise as output increases, production tends to get restricted. In addition to genuine or pseudo-fragmentation, marginal units restrict production within the free or preferential rate slabs thus reducing revenue yields and adding to idle capacity. A clear example of this was furnished by the preferential slab rates of duty for vegetable produce introduced in March, 1958. Scrutiny of the production records of manufacturers in this industry revealed a clear tendency to cease operations just short of the limit beyond which the next higher or standard rate of duty became applicable.[172]

The duty on vegetable non-essential oils revealed a similar pattern of response to the introduction of free and preferential slabs.[173] In this case the share of the organised sector in the total output fell from 97 per cent in 1959-60 to 56 per cent in 1961-2 while that of the small-scale sector rose from under 3 per cent to 44 per cent. However, the large spurt in production of the small-scale sector was achieved largely at the cost of reduction of production in the organized sector. A substantial amount of revenue was foregone, and the large duty preference induced the larger units either to fragment, to seal off, or dismantle part of their machinery. The administration attempted anti-fragmentation measures, but they did not succeed and this led to greater corruption and leakage of revenue. Thus, here again, preferential treatment for the small-scale sector led to fragmentation and idle capacity in the organized sector. Moreover, in this case sub-

stantial preferential treatment of the small-scale sector resulted in making the structure of the industry such as to make it not administratively worth levying an excise on the product at all. Thus, although when the duty was first levied, less than 10 per cent of the output came from small-scale millers, their numbers had multiplied rapidly as a result of preferential treatment which had brought in its wake increased evasion, avoidance and corruption. Hence, a commodity in which almost 50 per cent of the production had come to be scattered all over India in the small-scale sector no longer appeared to be a very suitable atricle for the levy of a Central excise duty. In brief, the preferential excise treatment for the small-scale sector, altered the structure of this industry to such an extent as to make the commodity no longer suitable for excise coverage.[174]

The excise on matches also provides for the quantum of preference being related to production—relief being afforded on a progressively higher scale as production drops. Here too the result has been restricted production and fragmentation. The following table reveals how rapidly such preferences can change the structure of an industry. It reveals that between 1960 and 1962 there was a great shift in production from "B" category match factories to the smaller "C" category match factories. Moreover, a considerable amount of the shift in production was due to the fragmentation of "B" category match factories, the number of which declined from 61 in 1960 to 41 in 1962.

TABLE 4

MATCHES: CATEGORY-WISE NUMBER OF MATCH FACTORIES AND PRODUCTION[175]

Category	*Number of Factories*			*Production (million sticks)*		
	1960	1961	1962	1960	1961	1962
"B"	61	44	41	90,060	89,560	76,210
"C"	153	243	438	11,120	37,400	63,865

Although a number of devices have been introduced to counteract the strong encouragement to fragmentation provided by such preferences, they have not had much success.[176]

The Chanda Committee felt that the existing schemes had proved largely ineffective in their promotional effect and in reaching the manufacturer due to two main factors:

> Firstly, they are administered by rate reductions in day-to-day assessment of the goods actually delivered. The preference is thus disbursed in such small amounts as to leave no visible effect. Secondly, the distributive channels exploit the small-scale producer, who has to part with his produce at prices which take into account only the preferential rate which has actually fallen on the product, thereby appropriating to themselves most of the benefit of rate concessions.[177]

The Chanda Committee has probably exaggerated the significance of both of these factors. The Committee argues that since the benefit of preferential rates accrues in small dribblets spread over the year, it is usually frittered away. It implies that a given amount of aid is more effective if given in a single lump sum. Howerer, the Committee gives no reason to believe that lump sum aid is any less likely to be frittered away. It seems implausible that the ineffectiveness of the promotional effect of such preferential rates is mainly due to the mere fact that the benefit is dispersed throughout the year.

The notion that the distributive trade is able to appropriate for itself the benefits of the preferential rates intended for small-scale manufacturers is an example of the almost universal tendency in India, of regarding the distributive trade as being exploitative and non-functional. Most Indians seem to feel that anyone who comes between the manufacturer and the consumer is making unjustified profits. It is hard to believe that the distributive trade really has the monopoly power so frequently attributed to it in India. In fact the distributive trade in India, as in most other countries, appears

to be a *relatively* competitive sector.

However, to the extent that the distributive trade does have the monopoly power attributed to it, it would probably be able to appropriate the cash bounties recommended by the Chanda Committee to replace tax privileges and preferences. In brief, if the distributive trade has monopoly power it may be fruitless to attempt to aid the small-scale sector, as all such aid could be appropriated by the distributive trade. In fact one could argue, that if any preference or aid is to be given, it would best be given to the *large-scale* sector so as to counteract the monopoly power of the distributive sector. However, there is very little to support the contention that the distributive trade has the degree of monopoly power attributed to it.

In any case, except on administrative grounds, total exemptions or free or preferential slabs based on production, number of workers or number of machines employed, appear undesirable. It is difficult to ascertain how much revenue is foregone by the present scheme of exemptions and preferences. In any event, direct cash subsidies would be preferable.[178] They would have the additional benefit of enabling Parliament and the country to know the extent of the contribution the exchequer is making towards fostering the growth of the small-scale sector, and thus provide a basis for judging whether such a policy is worthwhile.

In recent years (especially since 1963) the administration has replaced the system of free slabs and preferences with complete exemption of a number of products, including nitric and hydrochloric acids, cycle parts and footwear. This is a definite step in the right direction. In the case of commodities which are administratively difficult to tax because of the existence of an important and widely dispersed small-scale sector, it is better to provide a complete exemption. It should be noted, however, that basing such exemptions on administrative grounds, represents at least a partial abandonment of the objective of encouraging the small-

scale sector. While there would no longer be any preference for the small-scale manufacturers *within* an industry, those industries where the small-scale manufacturers predominate would be likely to be exempted from excise duties on administrative grounds.

In addition to encouraging the development of small-scale industries, excise duties have been used in a variety of ways to influence the allocation of resources in specific directions.

C. Encouragement of Exports

Excise duties have been used to encourage exports in a number of different ways. The rates of duty on tea and coffee are aimed partly at curbing domestic consumption so as to free larger quantities for export. The imposition of penal excise duties when exports fall short of prescribed quotas of cotton fabrics and sugar, had a similar purpose. According to the scheme devised for cotton fabrics in 1961, the increased excise duty was waived if 30 per cent or more of total production was exported, but charged only on the shortfall, if any. However, this fiscal device introduced considerable administrative complications and was abandoned the following year.[179] It would appear that levying penal rates of excise duty if exports of particular firms are below prescribed quotas is not a very effective and efficient means of promoting exports. However, the policy of taxing heavily, production for domestic consumption of products which have an export market, so as to encourage increased exports of such products, deserves more consideration.

It has been argued that this policy is fruitful only when the elasticity of foreign demand for the product con-

cerned is greater than unity, for if it is less than unity, the fall in price due to the increased exports would lead to a shrinkage in the foreign exchange earned.[180] There is probably not much scope in the Indian context for increasing foreign exchange earnings through such a policy. However, it might be possible to promote the exportation of superior varieties of cloth and shoes through such a policy.

H.T. Parekh has proposed a different use of the excise system to promote exports. He proposes a scheme which would allow, based on the amount exported, an excise bonus on a part of the output sold for internal consumption. The method would be to take into account the world price of each product and fix such excise bonus as would lower its export price to the world price and make exports attractive. The manufacturer would pay excise duties on total sales after deducting such remission for exports as he may be entitled to. In regard to established exports, rebates would be designed so as to apply to additional exports beyond what is regarded as normal. However, it is felt that this system of excise bonus would be particularly appropriate for developing new lines of exports.[181]

Such a scheme, does not apear to be practicable. The extent of the export bonus would have to be continually revised in light of the changing differential between the export price and the world price. Moreover, there would be considerable difficulties in establishing 'normal' exports for all exporters. Producers would undoubtedly find innumerable ways to make normal exports appear to be additional exports. For instance, a company might be broken up into a number of smaller companies, and it would not be easy to establish that the exports of these 'new' companies were not additional or new exports.

In addition to the indirect encouragement of exports by levying high excise duties on domestic consumption, it is accepted in principle that all goods exported should be relieved of customs and excise duties.[182] However,

this is not always achieved in practice. There are three major criticisms of the existing procedure for granting rebates of excise duty on exported goods. First, in many cases refunds are made only when the goods are exported by the manufacturer directly from the factory. Hence, no rebates are provided if the goods are exported by the manufacturer from a warehouse located at a distance from the factory or if the goods are exported by a dealer other than the manufacturer.[183] It would be preferable to allow refunds to all exporters. The actual exporter of any goods at any stage should be entitled to receive the admissible excise rebate.

The second major criticism is that the present schemes generally allow only rebate of duty borne by excisable goods at the *last* stage. Thus, there is generally no provision for refund of the excise duty borne by raw materials or components. In light of the urgency of the development of the export trade, rebates should be made for excise duty paid on raw materials and component parts, irrespective of whether there is a rebate of excise duty on the final product which is exported. However, in some cases it is rather difficult to ascertain precisely the amount of raw materials and component parts, and thus the amount of excise duty that should be refunded, that have gone into the finished exported product.[184] Hence, the most effective method of allowing rebates on account of excise duties borne by Indian products up to the time of export is to fix *ad hoc* rates of rebate on broad estimates of their incidence.[185] Where duty paid imported raw materials or components have gone into the product, the customs duty should also be taken into account for fixing the rebate admissible. Such a scheme of *ad hoc* rates of rebate has already been introduced for a few goods.[186] The scheme should be extended to all exported products for which it is difficult to ascertain precisely the total excise duty paid. In many cases, *ad hoc* rates of combined customs and excise duty drawback can be fixed.[187]

The third major criticism is that the procedure for obtaining rebates is excessively complex, frequently involving a considerable cost of time and money. It is contended that excessive and repetitive documentation is required, and that different procedures have to be followed and different authorities dealt with in obtaining the rebate of customs and excise duty. In brief, it is felt that the procedures and restrictions to prevent fraudulent claims being made have resulted in excessive delay and difficulty in obtaining repayment of duty paid on finished goods and on the materials used in their production. These excessive restrictions are felt to have hampered exports. While, there is undoubtedly some justification in this line of criticism, it is not always easy to strike the proper balance between the objective of preventing fraud and the objective of prompt and full rebates to encourage exports. While in the past too much emphasis was placed on the objective of preventing fraud, in recent years many new procedures have been introduced to facilitate the speedy granting of refunds.[188]

D. Excise Taxation of Raw Materials

Unlike most other excise systems in the world, the Indian excise system applies to a wide range of raw materials and intermediate products as well as to finished products. While set-off of duty or in-bond movement of raw materials is allowed in certain cases, there is no particular pattern or principle to such exemptions. Thus, while tin-plate is exempted from the duty paid on steel used in making it, there is no exemption for the duty paid on cement, used in making asbestos cement. After pointing out numerous dis-

crepancies of this nature, the Chanda Committee concluded that:

> Although relief from multiple (excise) levies is afforded selectively, there is neither uniformity in the pattern nor is there any evident or expressly stated principle in these reliefs.[189]

This almost random pattern of exemption for raw materials and intermediate product was strongly criticized by the Chanda Committee as follows:

> It appears that the variegated pattern, of which some samples have been given, is the result of *ad hoc* decisions on claims for relief as and when they arose, without any attempt at co-ordination of decisions earlier taken. This has led to contradictions and has reinforced complaints of discrimination. Furthermore, the administration of the levies has become more complicated.[190]

Although the Chanda Committee was strongly critical of many aspects of multi-point excises in practice, and felt that most of the evidence placed before them was opposed to multi-point taxation, they concluded that there were practical difficulties in introducing a single-point duty as a general rule. It pointed out that frequently an article subjected to duty may be the end-product of one manufacturer, but merely a component part for another (for instance, automobile tyres). In view of this and the need for a large yield from existing levies, the Committee felt it was impractical to introduce a single-point levy. Moreover, they presumed that "the rate of duty on finished goods, where no set-off is allowed, takes account of the duty paid by the raw materials, components and other ingredients."[191] Their own analysis leads one to find this presumption unconvincing. A multi-point excise duty inevitably results in the mis-allocation of resources, and suffers from the same defects as a multi-point sales tax.[192]

The major reason for not exempting raw materials and intermediate products from excise duty, is that it is felt that this would result in a considerable loss of excise revenue. However, if one raised the duty levied on final products, there is no reason why any loss of revenue

from exempting raw materials and intermediate products could not be recouped. Actually, what most advocates of the multiple-point excise system seem to mean, when they say adoption of a single-point system would result in a loss of revenue, is that it would result in increased evasion. As will be seen later the same argument is used by advocates of multi-point sales taxation. In neither case is the argument convincing. While it is probably true that spreading the payment of the tax over a number of stages reduces the incentive for evasion,[193] it also diffuses the administrative resources of the excise department. This writer feels that most people familiar with the excise administration in India, would be willing to admit that the greater is the decentralization of collection, the greater is the corruption.[194] Thus, the concentration of administrative resources on collecting the duty at a single stage is likely to increase effciency, to reduce corruption and to increase revenue (assuming comparable aggregate rates of duty are levied). In so far as it is administratively possible, excise duties should be levied only on finished products.

While the Chanda Committee expressed itself generally in favor of multi-point excise duties, there was one aspect of the system which they felt needed correction. They felt that the present scheme of requiring payment at the time of delivery of all goods from the place of their production ties up the working capital of the manufacturer, who uses duty-paid raw materials or components for producing other excisable products. Hence, they felt that some relief was called for and advocated a system whereby the duty liabilities on goods delivered to another factory, for use as components for the manufacture of articles themselves subject to duty, would be transferred to the manufacturer of the final product and paid when the excise on the final product was due.[195] Such a system of relief would probably lead to such an increase in administrative work as to make it not worthwhile. Moreover, it is not always possible to ascertain when, or exactly how much raw

materials have been incorporated in final products. Hence, such a scheme would probably lead to considerable evasion of excise duty, or at least, postponement of payment of the duty beyond that envisaged in the scheme. A much more effective way of relieving manufacturers of the burden of tying up their working capital, would be to completely exempt raw materials and component parts from excise duties.

E. Excise Taxation to Mop up Profits

In a number of instances excise duties have been raised with the intention of reducing what are regarded as excessive profit margins on certain items in scarce supply. Probably the first instance of such a use of excise duties was in September 1956, when the excise duties on textiles were sharply raised in the middle of of the financial year. The reason stated for this increase was that the industry was making very large profits which it was desired to mop up.

The 1957-8 Budget Speech of the Finance Minister proposed an increase in the rate of excise duty on paper to absorb the higher profit margins which were developing in the retail trade in paper. Similarly, in the 1959-60 Budget Speech of the Finance Minister it was contended that the proposed rise in the rate of duty on art silk fabrics was justified by the large profits being made in the industry. However, it was not until the 1965-6 Budget that there was a major use of excise duties to mop up a part of the surplus profits earned on the sale of scarce commodities. In his Budget Speech, the Finance Minister stated that:

"In a growing economy with shortage at various levels, there is also a tendency for the price structure to

be distorted. It is common knowledge that excessive profits are being made in the sale of products based on scarce materials......and I propose to make selective increases in both import and excise duties to mop up these surplus profits."[196]

With this end in view, excise duties on copper and copper alloys in crude form, copper circles and sheets, steel ingots, plates and rails and sleeper bars, semi-finished steel products and bars, rods and structurals, block sheets, hoops, skelp, strips, galvanized plates and sheets, tin plates and tinned sheets were raised. The 1967-8 Budget proposed an increase in the excise duty on aluminum ingots and rods, which was to be borne by the aluminum producers so as to reduce their excessive profits.

The 'excess profits' on a number of these items occur in the distributive sector, as the selling prices of the producers are controlled by the Government. In such cases the use of excise duties to mop up surplus profits, appears to be a reflection of the fact that while the Government can do a fairly effective job of controlling the selling price of producers of scarce materials, it is difficult to maintain control of prices throughout the distribution channel. Price control at the production level, often leads to excessive profits for middlemen. Thus, it might be correct to regard excise duties intended to reduce the profits of producers as substitutes for price controls, and to regard excise duties intended to reduce the profits of middlemen (dealing in products in which the producers' prices are controlled) as supplements to price controls.

In general when an excise duty (or an increase in rate) is levied on a product, it is assumed that the excise duty will ultimately be reflected in an increase in the price of the product to the consumer (that is, it will reduce the producers' or middlemen's profits only insofar as the higher price of the product to the consumer results in a reduction in the consumption of that product). However, in the present case, the presumption

is just the opposite. It is presumed that the increase in excise duty on the scarce commodities in question will not affect the price to the consumer, but will merely reduce the profits of producers and/or middlemen. Thus, the objective of mopping up surplus profits essentially requires that the tax increase is not shifted wholly or partly to the consumers of these products. Economic theory would lead one to expect that an increase in the tax rate on a commodity will mop up the surplus profits of the producers to the full extent of the rise in indirect taxes if the supply of the product is completely inelastic or if the demand for the product is infinitely elastic.

While in most developed countries high profits are usually regarded as the result of efficiency on the part of the industry or firm concerned, in India high profits are usually regarded as the result of Government controls of one kind or another, and, in general, are suspect.

One economist has even gone so far as to argue that the super-profits of each industry should be measured regularly and the Government should raise (or lower) the existing excise duty (or impose new excise duties) on each item in such a way that the quantum of duty is roughly equal to the quantum of 'super-profit' as determined by the regular survey of a proposed Price Intelligence Division.[197] Essentially what is being called for here, is for the Government to attempt to equalize the profits of all industries at some 'normal' or 'fair' level. Such a proposal would have disastrous effects. While high profits in a few instances may be the unintended and undesirable result of certain Government controls, in general, the level of profits serves as an indication of where increased investment should take place. Frequent variations of excise duty rates (intended to compensate for changes in the level of profits) would tend to de-stabilize both capital and commodity markets and lead to administrative chaos.

While changes in excise duty rates should generally not be related to profit levels, in some instances they

may be an effective means of improving the allocation of scarce goods and of absorbing profits which are largely the result of certain Government controls. Moreover, in some instances an increase in the rate of excise duty may do away with the need for Government to control prices. Where supply is very inelastic in the short run, an increase in excise duties may help to reduce the level of demand so that it is more closely equated to supply.

The question of the desirability of using excise duties as a means of mopping up surplus profits, cannot be separated from the larger question of the desirability of various Government controls on the allocation and prices of scarce commodities. Granted the desirability of such Government controls, excise duties may be an appropriate supplement, and even substitute, in certain cases. If it is just a question of imbalance between supply and demand, excise duties might be a more effective means of allocating the scarce resources and eliminating excessive profits than would price controls. However, Government controls generally come into existence mainly to make sure that certain scarce materials are allocated in sufficient quantities to what are deemed to be high priority uses. To the extent that this is the objective of Government controls, excise duties should not be a complete substitute.

4. Other Aspects of Excise Taxation

A. Taxation Of Necessities

There is a considerable difference of opinion on the question of whether necessities should be subject to commodity taxation in India. A number of economists feel that there is no case for taxing necessities.[198] It is argued that the income of poor people is so low that they should not bear any tax burden at all. Chelliah has argued that:

> Since there is scarcely an element of surplus in the incomes of the masses of the people it would be clearly undesirable as well as unjustifiable to force them to contribute to economic development out of their meagre incomes.[199]

It is argued that excise and sales taxes on necessities are very regressive, and thus undesirable. Exactly what commodities are considered to be necessities tends to differ with different writers, but all of the following commodities have been regarded by some economists as necessities: sugar, salt, matches, kerosene, cheap cloth, soap, footwear, betelnuts and vanaspati.

Other economists have argued that in light of the widespread poverty in India, an adequate level of revenue can only be raised if necessities as well as luxuries are taxed. It is argued that taxation of the higher income groups and luxury articles alone cannot produce sufficient revenues. Hence, it is not possible to exempt entirely goods of necessary consumption, if the tax base is to remain broad enough to assure adequate government revenue (which is conceived of as a higher level of tax revenue relative to national income).[200] Most of the economists that argue in favor of taxing necessities,

argue for placing lower rates on necessities than on luxuries.

In practice a number of 'necessities' have been subjected to excise and sales taxes. While there is no excise duty on salt or foodgrains, cheap cloth is subject to excise, and kerosene and matches are subject to very high rates of excise duty. Similarly, while salt and some food products are exempted from most State sales tax systems, many States tax foodgrains, kerosene, matches, and other 'necessities'. Over the years there has been an increasing willingness to tax various necessities. Article 286(3) of the Constitution had provided for the exemption of a number of products 'essential to the life of the community' from the scope of State sales taxation. However, on the recommendation of the Taxation Enquiry Commission[201] the Constitution was amended to remove this exemption in 1956.

B. Ad Valorem Versus Specific Excise Duties

One of the most repeated criticisms of the Indian Central Excise Duties has to do with their predominantly specific nature. It is often suggested that it would be desirable to convert as many of the duties as possible, if not all, into *ad valorem* duties.[202] The main criticism of specific excise duties is that they reduce the income-elasticity of the excise system, especially during periods of inflation. It is argued that with specific duties, increases in the prices of the taxed commodities do not increase Government revenue proportionately, as would be the case if *ad valorem* duties were operative. Hence, it becomes necessary to resort to repeated increases in the rates of the specific duties which tend to have a disruptive influence on the market for the taxed items.

Specific duties have been defended primarily on administrative grounds. It is widely believed that specific duties are easier to administer than *ad valorem* duties. Thus, the Chanda Committee which made a thorough study of the administration of excise duties, concluded in favor of specific duties as follows:

> "Although specific duties are inelastic and are unaffected by price variations, their administration is comparatively simpler. As the levy is not indeterminate, it is favored by the department and the producers alike. Whenever an industry lends itself to the intoduction of a specific duty, it should be preferred to ad valorem duty".[203]

While the Chanda Committee urged the adoption of specific rates of duty as far as possible, it realized that there were circumstances in which specific duties lead to difficulties, i.e. when there are large, medium and small producing units within an industry, with widely divergent costs of production and selling prices.[204]

The Committee felt that generally speaking, specific duties had been introduced for commodities in which classifications and sub-classifications were not numerous, and *ad valorem* duties where values differed widely for classes of the same article.[205] However, there have been a number of exceptions to this 'rule'. Moreover, some specific duties have been combined with *ad valorem* rates and, in the cases of a few others, the prescribed rates are both specific and *ad valorem*, but the effective rate is whichever yields more.

The main difficulty with *ad valorem* duties centres around the indeterminateness of the selling price to which the duty is to be applied. There are substantial valuation difficulties whenever the value of the same article changes frequently in successive transactions, and when different trade discounts are allowed for quantity sales. Valuation on the basis of the value of goods of 'like kind and quality' appears to have led to as many difficulties as it has resolved.[206] For in India, there is frequently little uniformity in quality or price.

In practice there has been a tendency to substitute specific duties for *ad valorem* duties. When price controls were lifted on cotton fabrics, the *ad valorem* duties on cotton fabrics were changed to specific rates. More recently, the duty on furnace oil, which had been *ad valorem* and specific, was changed to a solely specific basis.[207]

At present, all of the major products yielding a substantial amount of excise revenue are subject to specific duties: these include motor spirit, diesel oils, kerosene, cotton cloth, unmanufactured tobacco, sugar, matches and cement. It does seem to be generally true that specific duties have been introduced for commodities in which classifications and sub-classifications are not numerous,[208] while *ad valorem* duties have been levied where values differ widely for classes of the same article. For instance, metals such as steel, copper, zinc and aluminum in their crude form, or in plates or sheets, are subject to specific duties. On the other hand, the less homogeneous manufactures of these metals, such as of pipes and tubes are subject to *ad valorem* duties. In general raw materials tend to be subject to specific excises while finished manufactured products are subject to *ad valorem* excises. In light of their extreme heterogeneity it would be difficult to tax the following items on anything other than an *ad valorem* basis: patent and proprietary medicines, cosmetics, glassware, and chinaware.

It is probably correct to say that all, or almost all, of the commodities for which specific duties might be suitable, have already been subjected to specific duties. Hence if any change from the present set-up is to be recommended, it must be in the opposite direction. Thus, the question becomes essentially one of whether the increased income-elasticity which can be expected to accompany a shift to *ad valorem* duties, is worth the increased valuation problems which can be expected to arise. It might be pointed out that while specific duties manage to do away with valuation problems,

they frequently result in definitional problems of equal severity. Specific duties cannot be used in all instances because of problems involved in defining the specific measuring device selected—for example the number of cubic feet in a refrigerator—and because of the tendency for the amount of tax on inexpensive models to be out of proportion to the amount of tax on high price models. If rate differentiation is to be introduced, so that, say grades of cloth purchased by the poor man will be subject to lower rates of duty than grades of cloth generally purchased by the rich, then it becomes necessary to delineate some physical characteristic which can provide the basis for such rate differentiation. The problems are generally no less severe if rate differentiation is rejected. For then a specific duty will fall more heavily on the cheaper brand of a taxed article, as it will represent a higher percentage of the selling price. If the rate of duty is charged according to what the cheaper brand will be able to bear, potential revenue is lost on the more expensive brands. If, on the other hand, the rate is charged on the basis of what the more expensive brands can absorb, the cheaper brands will be adversely affected and may even disappear from the market[209]. Thus, as long as the product grouping is somewhat heterogeneous, specific duties will lead to some difficulties with or without rate differentiation.

The introduction of specific duties with rate differentiation is likely to disturb the existing balance of production. A strong incentive is introduced to produce as superior a product as possible, that still meets the qualification for a certain rate category according to the rated characteristic. Thus, if cotton fabrics with counts between 24 and 32 are subject to a particular rate, there is an incentive to discontinue the production of cloth with 24 or 25 counts and concentrate on production of cloth with counts of 31 or 32, since the specific tax will represent a lower percentage of the value of the cloth in the latter case. In levying a specific excise duty it is desirable to minimize such 'uneconomic' incentives,

without making the administration of the tax unduly cumbrous.

There may be, of course, corresponding difficulties with *ad valorem* duties. There is a strong incentive for the importer or producer to attempt to have the product valued at a rate lower than its real price, for tax purposes. Hence, he may resort to the issuing of false vouchers listing lower values for the taxed commodity. More difficult for the administrative authorities to deal with is the practice of a producer setting up a nominally autonomous distributing company to which he sells at artificially low prices so as to escape part of the tax. When *ad valorem* duties are adopted it thus becomes necessary to keep a close watch on the nature of producer-distributor relationships, or to adopt some basis other than 'actual' sale price for valuation for tax purposes.

A few economists have argued that since it is administratively difficult to rely exclusively on *ad valorem* or specific duties, a combination of the two may be desirable. Hence, it is suggested that along with minimum specific duties there should be a sliding scale of *ad valorem* duties arranged progressively in relation to price.[210]

In its Budget for 1963-4 the Government introduced a scheme of excise taxation which had the effect of putting this proposal partially into operation. On a large number of products, a 'special excise' duty was levied on an *ad valorem* basis at rates ranging from 10 to $33\frac{1}{3}$ per cent. However, the basic excise duty to which the new *ad valorem* special excise duty was applied (essentially in the form of a surcharge) was in some cases an *ad valorem* duty while in other cases it was a specific duty. Moreover, the rate differentiation of the surcharge was on a product rather than a price basis.

There is very little justification for excises of the "either specific or *ad valorem*—whichever is higher" nature. An example of this type of duty is the excise on motor vehicles (of not more than 16 H.P.) which is

subject to a duty of Rs. 1,000 each or 10 per cent *ad valorem*, whichever is higher. Since in order to determine which is higher it is necessary to ascertain the value of the product to which the *ad valorem* rate will be applied, the specific duty is superfluous. This type of duty is levied on all motor cycles, motor scooters, motor cars and other motor vehicles not specified. Tractors, on the other hand, are subject only to an *ad valorem* duty. This is more sensible, and all other motor vehicles should be subject to *ad valorem* duties only, especially since the valuation difficulties associated with these products are not very great.

C. Slab System

Recently a few excise duties have been converted into a slab system, utilizing specific rates. Prior to March 1964, radios were subject to a simple 20 per cent *ad valorem* excise duty. However, in March 1964 an optional slab system was set up to apply to radios. So now radios are subject to specific rates of duty which vary by price bracket at the point of sale to the consumer. Thus, for radios whose price at the point of sale to the consumer is between Rs. 165 and Rs. 225 there is a duty of Rs. 15, while for higher priced radios that sell for between Rs. 575 and Rs. 675 there is a duty of Rs. 90. This new slab system as introduced is optional, so that the manufacturer may still elect to pay at the 20 per cent *ad valorem* rate on his sale price to the wholesaler. The new slab system introduces an element of progression in the excise on radios. However, as with any slab system, an incentive is introduced to produce a product which sells at a price at the upper end of a slab. This tendency is heightened by providing

specific duties rather than *ad valorem* duties for each slab.

Thus, if the object is to secure progression on the basis of the price of a product, it would be preferable to introduce a slab system utilizing progressive *ad valorem* rates rather than progressive specific rates. As a general rule, it is preferable to use *ad valorem* duties whenever the sale price must be ascertained in order to apply the specific rate anyway.

D. Rate Differentiation in the Excise System

Not completely divorced from the choice between specific and *ad valorem* duties, is the question of the desirability of rate differentiation between products. Once the coverage of the excise system becomes as extensive as the present-day Indian system, there is much to be said for a change to an *ad valorem* basis so that all or most commodities can be taxed at a similar rate, or at a couple of different rates, as is the case with the purchase tax in Britain.

A glance at Table A-8[211] reveals the extreme differentiation of rates in the Indian excise system. The rates range from about 2.4 per cent on processed vegetable non-essential oils to over 300 per cent on motor spirit. In many cases there seems to be no logical basis for the differentiation in rates, and the mere existence of such differentiation is probably due to the fact that many of the duties are specific in nature, and the *ad valorem* rates on commodities often are not known.

It is difficult to defend the extremely high rate of duty on matches (136%) when items like motor vehicles, electric fans, and exposed cinematograph films are taxed

at rates less than one-tenth of the rate on matches. There are two plausible justifications for the extremely high rate of duty on matches.

The first is that this is a form of retribution for the long period during which the domestic match industry received heavy tariff protection.[212] However, it is difficult to see the logic in relating current rates of excise duty to the extent of tariff protection in the past. Another possible justification is the notion that it is desirable for all of the people to make some contribution to government revenue, no matter how poor they may be. If this objective is accepted then it can be argued that the easiest way of achieving this objective is to select one product which is consumed by all and tax that product at high rates. This would mitigate the need to tax many products consumed by the poor people. This justification is probably just as weak as the first one—for in practice, other products consumed by the poor people are subject to excise duties although generally at much lower rates. Thus, there seems to be little justification for taxing matches at the rate of 136 per cent. There are many other anomalies in the rate structure of the excise system. It seems likely that pressures would arise for the removal of many of these anomalies if most duties were levied on an *ad valorem* basis. Since most of the excise duties are levied on a specific basis, many of these anomalies simply are not recognized.

On allocation grounds it is generally desirable to tax substitutes at the same rate. A switch-over to *ad valorem* duties would facilitate this. While it is probably desirable to tax luxury goods at higher rates than necessities, the present rate differentiation in the excise system does not do this very effectively. The rate structure of the excise system appears to have grown up haphazardly over the years. This arbitrariness in the rate differentiation between products was an important reason behind Boothalingam's suggestion for the adoption of a modified value-added tax for the

majority of exciseable products—to be levied at a single uniform rate.[213]

This writer feels that it would be desirable for the Indian excise system to become more like the Canadian manufacturers' sales tax which is levied at a uniform *ad valorem* rate of 11 per cent. This point is argued at some length elsewhere in the paper. The point to make here is that a uniform *ad valorem* rate applied to the majority of exciseable products has much to recommend it. While certain items like tabacco and petroleum products might continue to be taxed at substantially higher rates, most products should be subjected to a single rate (or, perhaps a few rates). In order to give the Indian excise administrators time to become adept at handling the valuation problems that would arise, the transition could be carried out over a number of years. In any event, the incredibly arbitrary and haphazard rate structure of the existing Indian excise system needs reform. If past experience is any indication, such reform seems unlikely unless there is a widespread shift to *ad valorem* excise duties.

E. Frequency of Rate Changes

There are probably more frequent changes in the types and rates of both direct and indirect taxes in India than in any country in the world. There have been numerous changes in the coverage and rates of tax, as well as methods of assessing excise duties. The Government has been criticized by some for making rate changes too frequently, and by others for not making rate changes frequently enough.

Those individuals who feel that excise duties should be used as a means of regulating the level of profits

(eliminating 'excess' profits) or the level of production are strong advocates of what they call a flexible excise policy. Thus, it is argued that whenever there is a change in the market situation of an industry there should be an appropriate change in the rate of excise duty. On the one hand it is argued that excise duty rates should be raised whenever 'excess profits' occur in an industry. An excise tax system which generally provides for only a once-a-year change in rates is regarded as too rigid to be a useful instrument of mopping up surplus profits in the dynamic and ever-changing conditions of markets. Thus, it is contended that:

> Perhaps the greatest fault of the present system of commodity taxes is that the rates generally remain constant throughout the year even in the face of violent changes in the quantum of super-profits.[214]

On the other hand, it is argued that excise duty rates should be lowered whenever certain industries are faced with reduced demand and idle-capacity. Thus, it is argued that:

> Excise duties levied on particular commodities need to be altered promptly and in a flexible manner with reference to changes in the demand and supply of those commodities. The lack of flexibility in the Government's approach in the past to various excise duties over a period of time has often caused substantial hardships to various industries....[215]

Whenever, there is a decline in demand for textiles there are vociferous calls for reductions in excise duties on textiles, which in a number of instances have resulted in the desired reductions.

Both of the above lines of argument in support of a flexible excise rate policy are inappropriate. It is undesirable to have changes in the rates of excise duty whenever there are changes in the demand or supply of specific products. The main purpose of excise duties is to raise revenue and not to stabilize the market for specific products.

If a reduction in the rate of excise duty on the products of some particular industry facing a decline in demand is granted in some instances, there will be unending

demands by other industries for similar action whenever their products face a decline in demand and excise administration will become chaotic. In light of the considerable lag in recognition of changes in demand facing a particular industry, changes in excise rates intended to affect this demand, probably are as likely to be destabilizing as stabilizing.

Frequent changes in rates have an unsettling effect on producers, consumers and tax administrators. The efficiency of the tax administration is reduced by frequent changes in the statutes and notifications. As the officers have to spend considerable time keeping themselves up-to-date with the changes in the law, it interferes with their normal duties. Frequent rate changes, or even the expectation of rate changes, tend to have a disruptive influence on the market as well. While the disadvantages of an excessive number of *ad hoc* changes in rates of duty have been frequently mentioned by critics of excise taxation in India, there has not been any change in the Government policy. The Government contends that such frequent changes are necessary in light of the continual changes in economic conditions. The Central Excise Reorganization Committee was critical of the frequent changes in rates and rejected the above justification of the Government as follows:

> We have also noticed that even in regard to established excises, *ad hoc* adjustments and selective changes are being constantly made.
>
> Though these are sought to be explained as being due to changes in economic conditions and policies, we have not been convinced of their necessity, in any event at such frequent intervals.[216]

Thus, there would seem to be a good case for a reduction in the number of rate changes that occur annually.[217] As far as possible, changes in rates of particular excise duties should take place only at the time of passage of the annual budget. Enhanced stability in the tax statutes and fewer *ad hoc* notifications would probably facilitate better administration and compliance.

F. Compounded Levy Schemes

Under the Indian excise system there has been considerable difficulty in levying excise duties on the small-scale sector. When the small-scale sector accounts for an important portion of the output of an industry, there are obvious reasons for attempting to subject this sector to excise duties. However, the Indian excise administration is generally geared to the taxation of large firms, and the procedures followed in the taxation of large firms, are frequently found to be inefficient and costly when applied to small firms. Hence, it has been widely concluded that different procedures are required in levying excise duties on the small-scale sector. Most frequently some form of compounded levy scheme is advocated for this purpose.

At present compounded levy schemes are in operation for cotton and silk power-loom fabrics, khandsari sugar and battery plates manufactured in premises where not more than five workers are employed.[218] While the rate structure and the mechanism of the levy vary, depending on the industry, the basic principle involved in a compounded levy system is the same. In the case of cotton power-loom fabrics the system works as follows: The owner is permitted to discharge his liability by paying in advance a lump sum, computed on the basis of the number of power-looms installed. This is shown more clearly in table 5.

Having paid the compounded levy the owner is exempted from all other formalities of excise control except the requirement to maintain a daily record of the number of machines in operation. Physical control is limited to occasional visits by the Excise Officer to check that the number of machines actually employed does not exceed the number in respect of which the compounded levy has been paid.

Three main reasons account for the emergence of compounded levy schemes:

The first is the prohibitive costs involved in controlling a

> large number of small units producing excisable goods; the second is the obvious hardship that would be caused by requiring the small scale manufacturer to conform to the standard pattern of excise control, namely, to await the presence of the excise officer to check, assess and allow clearance of goods. The third reason is to allow some fiscal aid to the small scale manufacturer by pitching the incidence of the levy lower than the normal incidence.[219]

A compounded levy scheme has generally been introduced with the hope of reducing the work of the excise administration. Where it has been introduced the

TABLE 5

COMPOUNDED LEVY SYSTEM FOR UNPROCESSED COTTON FABRICS[220]

	If the duty is paid per quarter (in Rs.)	*If the duty is paid per year (in Rs.)*
Where not more than 4 power-looms are installed	6.50	25.00
Where more than 4 but not more than 24 power-looms are installed	20.00	75.00
Where more than 24 but not more than 49 power-looms are installed	40.00	150.00

compounded levy scheme has been made optional at the manufacturer's choice. In many cases the introduction of a compounded levy scheme has done little more than to reveal the extent of evasion by small manufacturers of the regular excise duty. In many cases, even though the incidence of the compounded levy rates is markedly lower than the incidence of the normal levy, a considerable number of small scale manufacturers choose the normal levy.[221] These small scale manufacturers obviously feel that the normal excise duty offers them even larger scope for reducing their excise liability by evasion.

In light of this fact, it has been suggested, that if compounded levies are to be used at all, they should be extended to all sectors of the industry. Not surprisingly, the main advocates of such a proposal, are firms in the large scale sector of industries where compounded levies are optional for the small scale firms.[222] In general, it would not seem desirable to subject any industry to a compounded duty of excise alone. Compounded levies are much too blunt a means of excise taxation of entire industries. The very introduction of the option of compounded levy schemes for the small scale sector of an industry, has usually been an indication that adequate excise control of this sector of the industry has not been possible. Thus, any industry which seems to require the introduction of the compounded levy for the whole industry is probably not suitable for excise taxation at all.

G. Cost of Excise Tax Collection

The Government's cost of collecting excise duties measured as a per cent of excise tax revenue, has declined continuously over the years. The cost of collection was 6.08 per cent of excise revenue in 1950-51. However, by 1955-6 this had been reduced to 2.09 per cent and in 1960-61 it was 1.66 per cent. In 1967-8 the cost of collection was only 1.09 per cent of excise revenue.[223] This would appear to be quite reasonable.[224] The vast increase in excise revenue since 1950-51 appears to have facilitated a considerable reduction in the cost of collection of excise duties. For many years the cost of collection of excise duties was considerably higher than the cost of collection of other central government taxes. However, this is no longer the case. In 1967-8 the

cost of collection for the three major sources of central government tax revenue were as follows: Customs duties (1.16 per cent); excise duties (1.09 per cent); corporate and personal income taxes (1.88 per cent).

By themselves cost of collection figures do not tell us very much. High collection costs probably can be considered as an indication that the administration of the tax is inefficient or that the nature of the tax is such, as to be costly, to collect. However, a low collection cost ratio is not necessarily an indication of efficient administration. A low cost of collection can be interpreted as an indication that the administration of the tax is somewhat deficient and that an increase in administrative expenditures may produce an increase in revenue substantially in excess of the cost. If very little is spent on enforcement of a tax, a low average cost may be achieved. Efficiency in the administration of a tax consists of minimizing evasion as well as minimizing the cost of collection. The failure to recognize this has led one analyst of the cost of collection of taxes to conclude that: "the relation between tax yield and cost of collection indicates extreme inefficiency and disorganization in the tax administration."[225] Actually, the relation between tax yield and cost of collection does not tell us anything definite about the efficiency of tax administration. A low average cost of collection does not indicate administrative efficiency if it is accompanied by widespread evasion. On the other hand a high average cost of collection does not necessarily indicate high administrative inefficiency. It may merely indicate that the particular tax is expensive to collect.

Moreover, a low average cost of collection does not indicate maximization of the net tax revenues (gross tax revenue minus cost of collection), which would be achieved if the cost of collection is increased until the last small increase in cost of collection yields exactly the same amount of additional revenue.

H. Compliance Costs

Any discussion of the efficiency of tax collection should consider compliance costs as well as administration costs. The clerical and administrative operations necessary for the collection, accounting and reporting of the excise taxes levied on their taxable production are a cost of some significance to manufacturers.

These compliance costs may well exceed the direct costs of collection to the government. This is especially likely to be the case in India, where manufacturers are often required to provide certain facilities to the excise department personnel assigned to their plants. However, as far as this writer has been able to ascertain, there have been no studies of the compliance costs of excise taxation, or of any other type of taxation, in India. There are several difficulties involved in the actual measurement of compliance costs, the most important of which is identifying the point at which normal business costs end and tax payment costs begin.[226]

5. Additional Duties of Excise

In December 1957, Parliament passed the Additional Duties of Excise (Goods of Special Importance) Act, 1957 to replace sales tax on sugar, tobacco and textiles (cotton fabrics, rayon or artificial silk fabrics, and woollen fabrics) by additional excise duties.[227] Since 1957 all forms of tobacco, sugar, and textiles have been free from State sales tax levies; instead, additional excise duties at prescribed rates have been levied and collected on them together with, and in the same way as the duty leviable under the Central Excises an Salt Act, 1944 (which governs the levying of all regula excises). However, the proceeds are accounted ˙o separately and distributed to the States to compensa them for the loss of corresponding sales tax revenue. The Additional Duties of Excise Act, 1957, does not forbid the levy of sales tax on these excisable commodities, but provides that if in any year a State levies and collects a tax on the sale or purchase of such commodities, no share of the proceeds of the Additional Excise Duty will be given to the State.

The National Development Council in December 1956, had recommended that on the three commodities mentioned above, sales tax should be replaced by additional duties of excise by the Centre, provided that the previous income of the States from this source was assured to them. It has already been pointed out that under the Constitution the right to levy taxes on sales vests with the States. However, there is no Constitutional bar to the sales tax and its administration being centralized with the consent of the States. On the other hand, the Central Government has power to impose excise duties under the Constitution, but it has no power to force the States to give up sales tax

revenue on a particular commodity or generally. However, it can give grant-in-aid to the States on the condition that the States do not impose sales tax on particular commodities. Thus, sales tax on the above commodities could be given up by the States on the basis of agreement between them and the Centre.

In May 1957, the Government of India had referred the matter to the Second Finance Commission to make recommendations:

> As to the principles which should govern the distribution of the net proceeds of this additional duty among the States and the amounts which should be assured to the States as the income now derived by them from the levy of sales tax on these commodities.[228]

The main difficulties associated with the replacement of sales tax by excise duties on particular commodities were already clearly in evidence in the deliberations of the Second Finance Commission's Report. In determining the amount of the 'present income' to be assured to the States, the States urged that the expression be given a liberal interpretation "so as to include prospective revenues likely to result from increase of rates for which legislation had been passed or was likely to be passed in the near future."[229] Moreover, "some States even claimed that allowance should be made for the loss suffered by tax evasion and for the amounts that might become available to them through improvement in the machinery of collection."[230] However, the Finance Commission decided that 'present income' for any State should be the income which accrued to that State in the financial year 1956-7 from the levy of sales taxes on the selected commodities. Since many of the States had no separate figures for sales tax collections from these three commodities, the Finance Commission had to use indirect indicators to arrive at rough approximations in some instances. As for the distribution of any revenue from additional excise duties in excess of this guaranteed amount, the Commission favoured consumption of these commodi-

ties as the basis. However, since there were considerable margins of error in the figures on consumption of these three commodities in the various States, it was decided to use population as a corrective for consumption as a basis for distribution of any revenue in excess of the guaranteed amounts.[231]

The Third Finance Commission also guaranteed the amounts which had been specified by the Second Finance Commission. However, it altered the principles on which the excess excise revenue, after meeting the guaranteed amounts, should be distributed. The Third Finance Commission dropped consumption of the commodities involved as a criterion for the allocation of the excess collections. Instead they decided that:

> it would be equitable to distribute the excess collections partly on the basis of the percentage increase in the collection of sales tax in each State since the year 1957-8 when the additional excise duties were imposed and partly on the basis of population.[232]

There is no indication as to the relative weightage given to these factors.

The Fourth Finance Commission also recommended the guaranteed amounts based on the estimates of the Second Finance Commission. However, it adopted new principles for the distribution of the balance of the net proceeds over the total of the guaranteed amounts. It felt that the figures for collections of all sales taxes in a State would be a more direct indicator of the contribution made by each State to the divisible surplus than population. Therefore, it recommended that the distribution of the balance over the total guaranteed amounts be made on the basis of the proportion of sales tax revenue realized in each State to the total sales tax collection in all the States taken together.[233] The data relating to actual sales tax collections over the years 1961-2 to 1963-4 were used for the purpose of determining the proportion of the balance to be distributed to each State. Thus, the Third Finance Com-

mission's criterion of the increase in sales tax revenue was replaced by the absolute amount of sales tax collections in recent years.

It is claimed that three major advantages were achieved by replacing sales taxes with excise duties. First of all, it has eliminated some of the commercial community's difficulties of compliance with sales tax laws. It relieves many traders of the liability to submit returns of sales, to fill out complicated sales tax forms and to undergo annually the rigours of sales tax assessment. Secondly, it has eliminated much of the evasion of taxation which had occurred under the sales tax laws. It is generally much harder for manufacturers to evade excise duties than for numerous small traders to evade sales taxes. Thirdly, by doing away with sales taxes the scheme has been beneficial from the point of view of inter-State trade and commerce. Diversity in the tax rates on the same commodity in the various State sales tax laws tended to cause unnecessary movement of goods from one State to another.

The States have expressed considerable displeasure with the amount of revenue they have derived from the additional excise duties. They seem to feel that they would have gotten more revenue if the three commodities had remained under their sales tax jurisdiction. They point out that sales tax is levied on an *ad valorem* basis, while the additional excise duties are specific. Hence, the States do not automatically get any additional tax revenue with increases in prices on these commodities. Moreover, it is pointed out that almost all States have raised the rates of their sales taxes since 1956-7 and this too would have resulted in a large increase in their revenue from these commodities. On the other hand, the rates of additional excise duties have remained fixed, although the 'basic' excise rates on these commodities have been increased. It is further argued that sales tax revenues have shown a much higher rate of growth than the yield from the additional

duties of excise and that if the scheme had not been introduced, the rate of increase in sales tax revenues from these items would have been closer to the rate for total sales tax revenue on other items. The above argument undoubtedly overstates the case in light of the fact that some of the increase on sales tax revenue has been derived from expansion of coverage of the sales tax laws. But the general tenor of the argument cannot be easily dismissed. It does appear that the States would have received more revenue from these commodities if they had continued to levy sales taxes on them. According to the Second Finance Commission's Report the States received Rs. 32.54 crores in 1956-7 from their sales taxes on these commodities. In 1966-7 the States received Rs. 50.16 crores from additional excise duties.[234] This represents an increase of about 54 per cent over the ten-year period between 1956-7 and 1966-7, while the revenue from both State sales taxes and basic excise duties has increased by more than 200 per cent.[235] During the same period the revenue from the basic excise duties on sugar, tobacco and textiles increased from Rs. 111.78 crores to Rs. 202.62 crores, an increase of about 81 per cent.[236] These figures reveal that the States probably would have received more revenue if they had continued to levy sales taxes on these commodities, and that they would have received about 27 per cent more revenue in 1966-7 if the rates of additional duties of excise had been increased proportionately to the increase in the rates of basic excise duties on these commodities during this period.

Representatives of the trade have been enthusiastic advocates for sales tax replacement by additional excise duties on as many commodities as possible. They contend this would greatly relieve their burden in regard to maintenance of accounts and compliance with other formalities of the sales tax law.

The Orissa Taxation Enquiry Committee also felt that the extension of this system to some other commodities would definitely be in the interest of the State

and recommended that sales tax on tea, coffee, matches, paper, cement and vegetable products should be replaced by additional excise duties.[237] The Committee did not, however, subscribe to the view that the sales tax should in time be replaced altogether by Central excise. In his study of the Andhra Pradesh sales tax system, Dr. P.S. Lokanathan went further and recommended that:

> In general there should be substitution of additional excise duty for the State sales tax in respect of goods on which excise duties are levied by (the) Centre.[238]

Others have gone even further and advocated that the State sales taxes be abolished altogether and replaced by Central excise duties. The Central Excise Reorganization Committee felt that there were distinct advantages to a complete merger of sales tax and excise duties. It pointed out that :

> On the one hand, it will make for uniformity in the rates of sales tax levies throughout India; on the the other, it will give a welcome relief to trade and industry.[239]

The Federation of Indian Chambers of Commerce and Industry has expressed the view that it would be in the best interests of the country as a whole if the levy and administration of sales taxation were to be taken over by the Central Government and the proceeds divided among the States on some agreed basis, as in the case of the income tax or excise duties.[240] The Federation has argued that this would result in less expenditure on cost of collection, less cost of compliance for dealers and less scope for avoidance.[241] From an administrative standpoint, the assessment and payment of commodity taxes at the federal level is undoubtedly best for concerns with widespread operations. There would be fewer returns to prepare and it would be a lot easier than paying at different rates in each State and having probelms of inter-State movement of products. The trade associations and Chambers of Commerce seem to feel that if the sales tax could be amalgamated with the Union excise duty, difficulties arising out of checking accounts, submission of re-

turns, etc. could be minimized and one set of accounts and returns would become sufficient.

The Taxation Enquiry Commission also examined the suggestion of replacement of sales tax by an extension of excise. They rejected the suggestion, pointing out the advantages of the sales tax which applies to the general run of goods, while excise duties are necessarily selective.[242] Moreover, they felt that the sales tax is essential for providing an independent source of revenue to the States in a federal system of government. They also pointed out that not all goods are susceptible to excise, and that excise is especially difficult to collect when there are a large number of producers with small units of production.

The suggestion of complete centralization of both the levy and administration of sales taxation has been strongly condemned. It is felt that this would create very difficult financial problems for the States and would virtually lead to an eclipse of the federal system in the country.[243] Moreover, it is argued that there exist significant differences in the economies of the different States, which require different forms of sales taxation.[244]

Predictably, the State Finance Ministers have been unanimously against complete centralization of sales taxation. In fact, they have even been against any further substitution of excise duties for sales taxes on specific commodities. There remains a considerable amount of controversy concerning the appropriate criteria for the allocation of the proceeds of the basic and additional excise duties among the various States. It appears that no matter which criteria are selected some States would be dissatisfied. It is likely that underlying part of the States' resistance to the extension of additional excise duties to more commodities has been the fear that political considerations might come to dictate the allocation of such revenue.[245]

Three different suggestions for replacement of sales tax by additional duties of excise have been mentioned

above. The first suggestion merely calls for adopting the current system for a few additional commodities. The second suggestion calls for replacement of the sales tax on all commodities which are subject to Central excise. The third suggestion calls for complete replacement of the sales tax by Central excise. The last suggestion can probably be rejected as neither feasible (politically) nor desirable. The States would never agree to complete centralization of sales taxation. Moreover, it would probably not be possible to place excises on all the commodities now subject to sales taxation. While the second suggestion has the advantages of reducing administrative and compliance costs, it too does not appear to be politically feasible. Thus only the first suggestion is politically feasible. It would probably be advantageous to adopt the system for an additional dozen or so commodities. The major advantages to be achieved by replacing sales taxes with additional duties of excise on some commodities are: a reduction in administrative and compliance costs, increased uniformity of taxation among the States, and, perhaps, a reduction in evasion. However, if the system is to be extended to more commodities it is obvious that the objections of the States to the present system encompassing three commodities must be met satisfactorily.

It is argued by some that the transfer of any more commodities from the purview of sales tax would mean the erosion of the States' most flexible and elastic source of revenue. Furthermore:

> When the dependence of the States on the Centre for financial assistance is increasing annually transfer of any goods from the orbit of sales tax is not desirable.[246]

However, the resistance of the State Finance Ministers to further substitution of excise for sales tax may well be more a question of revenue, than fear of further dependence on the Centre or loss of flexibility in their tax systems. As has already been pointed out, the States seem to be correct in their contention that the additional

revenue derived from reduction of evasion has not made up for the revenue they have lost because of the fixity and specific nature of the additional excise duties during a period of rising prices. Since the concurrence of all the States is necessary for extension of the system to additional commodities, it is obvious that the States must be assured of at least as much revenue as they could expect from continuance of sales taxation on the commodities that are being considered for replacement by additional duties of excise.

It has been contended that:

> Probably the States' objection could be overcome if an inter-State committee is constituted to review biennially the price rise effect on revenue from excise duties and adjust the shares of the States.[247]

But it is doubtful if this would be satisfactory. It would be preferable, where administratively feasible, to make both the basic excise duty and the additional excise duty *ad valorem*. This would do away with the need to make any complex assessment of the price rise effect on revenue. Moreover, whenever the basic duty of excise is increased, the additional excise duty should be increased proportionally. If the Central Government is willing to make such adjustments, the State Governments might be willing to extend the present system to more than three commodities. Such extension would then be desirable from the States' point of view whenever it reduced evasion or eliminated serious diversion of trade from one State to another.

However, there remains the problem of the proper criteria for allocation of the proceeds from the additional excise duties among the various States. Perhaps, in this instance, consumption of the specific commodities would be the most appropriate basis. However, in the present state of statistics in India, there seems to be no possibility of establishing with any degree of realism State-wise data on the consumption of any particular goods which could serve as the basis for the allocation

TABLE 6

STATES' SHARE OF ADDITIONAL DUTIES OF EXCISE

States	Population as a percentage of all States' Population (1961)	Union Excise Basic per cent share	Additional Duties of Excise: 'Guaranteed Amount' per cent share	Additional Duties of Excise: Percentage share of balance Second Finance Commission	Additional Duties of Excise: Percentage share of balance Third Finance Commission	Additional Duties of Excise: Percentage share of balance Fourth Finance Commission
1	2	3	4	5	6	7
Andhra Pradesh	8.34	7.77	7.23	7.81	7.75	7.42
Assam	2.75	3.32	2.61	2.73	2.50	1.98
Bihar	10.76	10.03	4.00	10.04	10.00	6.17
Gujarat	4.78	4.80	9.94	17.52(1)	5.40	7.45
Kerala	3.92	4.16	2.92	3.15	4.25	5.65
Madhya Pradesh	7.50	7.40	4.77	7.16	7.00	4.62

Madras	7.80	7.18	8.77	7.74	9.00	11.13
Maharashtra	9.16	8.23	19.60	17.52(1)	10.60	19.87
Mysore	5.46	5.41	3.08	5.13	5.25	5.21
Orissa	4.07	4.82	2.62	3.20	4.50	2.58
Punjab	4.70	4.86	5.38	5.71	5.25	5.01
Rajasthan	4.67	5.06	2.77	4.32	4.00	3.17
Uttar Pradesh	17.08	14.98	17.70	17.18	15.50	7.83
West Bengal	8.09	7.51	8.62	8.31	9.00	11.93
Jammu and Kashmir	.83	2.26	—	—	—	—
Nagaland	—	2.21				
All States	100.00	100.00	—	—	—	—

Source: (1) *Report of the Finance Commission* **1965**,(Government of India Press, New Delhi, 1965), pp. 71-75, 165.

(2) *Report of the Finance Commission* **1961**, (Government of India Press, New Delhi, 1962), p.48.

(3) *Report of the Finance Commission* **1957**, (Government of India Press, New Delhi, 1958), p.62.

Note: (1) This figure is for the old State of Bombay before its bifurcation into Gujarat and Maharashtra.

of Central revenues as compensation for the withdrawal of the sales tax on those goods. Thus, it would probably be necessary to fall back on population as the most important criterion as it can be established with considerably more reliability. However, the difficulty of getting the States to agree to a particular criterion or set of criteria probably remains the biggest hindrance to the adoption of additional duties of excise, in lieu of sales taxation, for more commodities.

All of the criteria that have been adopted by the successive Finance Commissions for distribution of the excess revenue from additional duties of excise are quite defensible. The percentage of the respective commodities consumed by each State which was the criterion proposed by the Second Finance Commission seems the most appropriate criterion to adopt when first introducing the new system. However, with the passage of time, and as the excess revenue increases in size relative to the guaranteed amounts, this criterion becomes somewhat questionable. Thus, the Third Finance Commission recommended distribution on the basis of percentage of a State's increase in sales tax revenue to the aggregate increase in sales tax revenue of all States (modified to some extent by population), and the Fourth Finance Commission merely recommended distribution on the basis of a State's sales tax collections relative to sales tax collections of all States during recent years. The Finance Commissions appear to be trying to adopt a criterion which will provide each State with approximately the same additional revenue that it would have derived if the commodities had remained subject to sales taxation.

However, a glance at Table 6 reveals that the changes in criteria adopted by the successive Finance Commissions for distributing the balance of the revenue from additional duties of excise have resulted in considerable alteration of the percentage shares of the various States. Thus, under the scheme proposed by the Third Finance Commission, Maharashtra received

10.60 per cent and Uttar Pradesh received 15.50 per cent; while under the scheme proposed by the Fourth Finance Commission Maharashtra receives 19.87 per cent and Uttar Pradesh receives only 7.83 per cent. Thus, the change in the criterion for allocation of the excess revenue from additional duties of excise has resulted in a State's share being increased or decreased by as much as 100 per cent.

The very fact that each Finance Commission has seen fit to adopt new principles for allocating the balance of revenue from additional excise duties inevitably leads the States to be somewhat reluctant to adopt the scheme for additional commodities. The States have no assurance that their share of this revenue will not be greatly changed by the adoption of some new allocation principles by future Finance Commissions. Hence, it is likely that even if the States agree to the desirability of extending additional duties of excise to more commodities, it is unlikely that they will be willing to leave the matter of distribution of the proceeds between the States to the whims of future Finance Commissions.

However, it appears very unlikely that the States will be willing to accept additional duties of excise in lieu of sales taxes on any additional commodities. The working of the present system has done very little to encourage the States to extend it further. Not only have they not received any more revenue than they probably would have received if they had continued to levy sales taxes, but the principles of allocation of the excess revenue have been changed by each successive Finance Commission—over which they have no control.[248]

6. Bhoothalingam Committee Report

In his *Final Report on Rationalization and Simplification of the Tax Structure*, Mr. Bhoothalingam has proposed a substantial modification of the present system of excise taxation. He feels that the present system has grown up haphazardly and that it has now become unwieldy. Most excises are specific, but some are *ad valorem* and some a combination of the two. Besides the basic duties, there are now 'additional duties', which are levied in replacement of sales taxes on a few commodities, and 'special duties' which are in the form of *ad valorem* surcharges levied on twenty-nine commodities. The effective rates of duty were found to vary widely, ranging from four per cent to over 300 per cent. He points out that exemptions designed to mitigate the multi-point effect of excises and exemptions providing preferences for smaller units of production have tended to increase. Moreover, the administrative processes have become quite elaborate:

> Manufacturers are 'licensed' and are required to maintain daily accounts of production and despatches. Despatches are physically controlled by the excise authorities.... The strain on the administration caused by this type of control which visualizes physical supervision over various stages of production and examination of goods before clearance and control of despatches by gate passes authorized by excise officers has naturally tended to increase greatly......Besides physical supervision, the administration has tended to become highly complex in other ways also. The commodities have to be precisely defined. Often the required precision is just not possible and, therefore, different interpretations come to prevail. The elaborate procedures and the numerous checks and cross-checks require a variety of records to be maintained and returns to be submitted. Exemptions and

> reliefs, particularly those connected with the 'end use' of the commodity result in further difficulties.[249]

Bhoothalingam believes "that ideally a tax system should be built in such a way that the growth in national income will be automatically reflected in the revenues of the State."[250] He feels that the excise duty can be the best of the available taxes, as it can be made to combine income elasticity with a large and stable yield. However, he feels that with the present excise system the growth of national income will not be automatically reflected in the revenues of the Government. He does not think that the present system of excise taxation is likely to exhibit in the future the kind of growth that it has exhibited in the recent past. He gives three basic reasons for this belief. First of all, "most of the commodities one can readily think of have already been subjected to excise duties."[251] Second, the present system of excise duties cannot effectively tax the production of small establishments, which he expects to "contribute an ever increasing proportion of the national income".[252] Third, there is a limit to the process of increasing the existing rates "and in the case of many commodities this has perhaps been reached already."[253]

Thus, he concludes that:

> The time has, therefore, come for changing the nature and form of excise duties, so that they can be more effectively and conveniently applied to a wide and growing base of production which does not easily respond to the present system. Only so will it be possible to advance significantly towards a system of excise duties which would reflect the growth of production fairly automatically and obviate the need for frequent changes in rates and an annual search for more and more specific commodities to tax.[254]

Bhoothalingam recommends the introduction of what he calls a 'General Excise Duty' on all productions on which the Centre is competent to levy such a duty under the Constitution. He points out that this will be different from the present type of excise duties in the following ways:

> Firstly, it will be applicable in law to the entire production

> of a unit, whatever be the number and variety of the goods it produces from time to time. There will be no need to specify or define commodities as the tax will apply to the value of the whole production with such adjustments as are prescribed. Problems of interpretation to which so much ingenuity and resourcefulness are now devoted will not arise at all. By definition therefore the duty will have to be *ad valorem*. The tax base should be the value of production minus the value of all *materials* bought for the purpose of production but not the value of equipment or services. There will be no cumulative taxation or what is commonly known as the cascade effect...... In concrete terms, the tax base can be ascertained as follows :

Total of:

(i) value of products and by-products,

(ii) additions in stocks of finished and semi-finished products (plus or minus) diminished by total of,

(iii) fuel, electricity, lubricants, etc. consumed to the extent bought out, and

(iv) material bought out and consumed.[255]

Although the tax liability is related to production, the actual sale or saleable value will be taken as the value of production. Theoretically the tax should be applied to all units of production. However, Bhoothalingam realizes that for quite a long time to come it will be impracticable to levy the tax on very small establishments. Hence, he recommends that establishments up to a certain size should be exempted. Where the line should be drawn is related to administrative capacity. But he feels that initially establishments with less than ten people employed will have to be exempted. Bhoothalingam feels that the concept of the General Excise Duty requires that there should be no exemptions except for constitutional or unavoidable administrative reasons. "Further, the rate of tax must be uniform as without a specific commodity link there will be no room for discrimination for any kind of purposes."[256] He recommends that the General Excise Duty be levied at a rate of 10 per cent on the base he has defined. This rate of tax is to remain stable.

> The need for revision should not normally arise as the tax

> by its very nature will not (and is not meant to) lend itself to changes related to the situation of particular commodities. It is only when it becomes essential to increase the revenues of the State as a whole that the use of this instrument should be considered along with others.[257]

Both in terms of its large elimination of exemptions and in terms of the relative permanency of the rate structure his proposal represents a marked change from the present excise system.

However, Bhoothalingam backs down from a rigorous application of his proposed General Excise Duty. Both for revenue and policy reasons, he feels that some of the existing excise duties should be continued. The objective of restraining consumption may require the continuance of some of the excise duties. Thus, he suggests that the existing system of excise duties be continued, on a more or less long term basis on the following fourteen commodities :

(1) Tea
(2) Coffee
(3) Unmanufactured tobacco
(4) Sugar
(5) Mineral oils and their products
(6) Cotton textiles (Yarn and fabrics)
(7) Rayon (Yarn and fabrics)
(8) Cigarettes
(9) Matches
(10) Iron and steel
(11) Motor vehicles
(12) Tyres and tubes
(13) Cement
(14) Paper

Since the above fourteen commodities account for about nine-tenths of the total excise revenue, Bhoothalingam's proposal is much less revolutionary than it appears at first glance. As he feels that even this is a deep plunge, he suggests that in the first year the present excise duties may be retained on an additional twelve commodities which account for about Rs. 50 crores in

revenue.[258] However, within a period of five years these commodities are to be brought under the General Excise Duty.

At present the total revenue derived from excise duties on the remaining commodities (other than the 26 commodities specified by Bhoothalingam) is about Rs. 50 crores.[259] Bhoothalingam estimates that the base of the General Excise Duty would be at least Rs. 1,150 crores and that the revenue derived from it should, therefore, be in excess of Rs. 100 crores. Thus, he feels that his proposals will increase total excise revenue by about Rs. 50 crores.

The General Excise Tax proposed by Bhoothalingam is somewhat akin to a value-added tax. However, it only goes up to the manufacturing stage and does not extend to wholesalers or retailers.

As the title of his report implies, Bhoothalingam is primarily concerned with rationalisation and simplification of the tax structure. Thus, it is in these terms that his proposal should be evaluated. His main criticism of the existing system is its administrative complexity and its lack of income elasticity. Unfortunately his proposals do very little to improve either of these. First of all, it should be kept in mind that the proposed General Excise Tax excludes commodities which constitute about nine-tenths of the present excise system. It is not possible to greatly increase the income elasticity of the whole excise tax system, by merely increasing the income elasticity of one-tenth, or less, of the system. Secondly, it is difficult to perceive how the proposed General Excise Tax will simplify administration. The present coverage of units is smaller than that required by the General Excise Duty, especially if it is extended to even the smallest units. Since the new tax has to take into account not only the output but also the inputs, and, moreover, since it has to discriminate between those inputs which are deductable from gross revenue and those that are not deductable, it is likely to involve a greater degree of checking of books

and greater requirements regarding maintenance of accounts than exists under the present system of excise duties.[260] Cross-checking to see whether inputs claimed to have been used have actually been used will be a difficult and tedious process. It is much easier to ascertain what inputs have been purchased than to ascertain what inputs have been consumed in production. Bhoothalingam's proposed method of levying the General Excise Duty would provide considerable incentive for a manufacturer to inflate the cost of materials, by purchasing more materials than are actually required and reselling the surplus. For excise duty purposes he can then deduct the cost of *purchased* materials (and not materials *consumed*) from the value of production. Similarly there would be an incentive to make capital expenditures appear as expenditures for materials consumed in the production process. It is not always easy for a tax officer to discriminate between capital inputs and inputs used up in the production process. The inclusion of additions (or subtractions) of finished and semi-finished products in the base, will lead to serious valuation problems. Are the additions to stocks to be valued at their saleable value at the time of addition or at the time that the tax is assessed? How is one to ascertain the saleable value of semi-finished products? Moreover, if, as Bhoothalingam states, the tax is to be paid a little after the sale takes place, how does addition in stocks bear any tax at all? In effect, his proposal appears to tax sales rather than production. Thus, there appears to be considerable confusion between intent and effect. It appears that the liability is related to production, for constitutional reasons, while the payment of tax is related to sales, for administrative reasons. It is not clear whether the value of materials bought for the purpose of production includes the tax on the sale of raw materials which are subject to excise duty.

Bhoothalingam is highly critical of the method of physical control and supervision used in the administra-

tion of most excises. He advocates extension of the audit type of control as far as possible. There have already been steps in this direction in recent years, but as Bhoothalingam emphasizes the audit type of control should be extended even further.

Bhoothalingam's suggestions represent a much needed attempt at gaining some perspective on the nature of the existing excise system. As he realizes, there is a tendency for the Government to become so engrossed in the minor alterations of the system from year to year that they lose sight of some of the main objectives of the excise system. Thus, there is a tendency for the excise system to grow haphazardly.

Essentially his report calls for a movement away from the existing philosophy of what was earlier labelled 'interventionism' towards a policy of 'neutralism'. He feels it is desirable to restrain the tendency to use excise exemptions for minor policy reasons. He expresses the desirability of having one effective rate of excise duty, rather than the multiplicity of rates now in existence. In brief, he has made an effective case for the need to simplify and rationalize the present system of excise taxation. However, the General Excise Duty proposed by him has failed to do so. Perhaps, the most useful aspect of Bhoothalingam's discussion of excise taxation, is the recognition of the need to move away from the excessive interventionism of the present excise system, towards a greater degree of neutrality.

This writer feels that many of the desirable alterations of the present excise system sought by Bhoothalingam could be more easily and effectively achieved by means of an excise tax levied at the manufacturing stage, similar in nature to the manufacturers sales tax levied by Canada. On neutrality grounds, as well as for reasons of administrative simplification, it would be desirable to eliminate the multiple taxation and excessive rate differentiation of the present system. In order to do this, Bhoothalingam advocates what amounts to a form of value-added taxation carried

through to the manufacturing stage. The administrative complexity of such a tax is far greater than is indicated by Bhoothalingam in his Report.[261] There are two ways of eliminating the multiple taxation (or cascade) effect of the present excise system. One is to adopt a form of value-added tax such as that recommended by Bhoothalingam. The other is to levy excise taxation at only one point, in this case, at the point of manufacture.[262] The latter form of excise tax is more appropriate for India. The value-added tax, even the form recommended by Bhoothalingam, is too sophisticated and complex for an underdeveloped country.

Hence, this writer would favour the adoption of what might be called a General Manufacturers Excise Duty. As is the case with the manufacturers sales tax in Canada, the tax should be levied at a single uniform *ad valorem* rate, of say 15 per cent on the manufacturers of finished products. All manufacturers would be required to obtain licences which would enable them to purchase parts, materials and other phyical ingredients to be incorporated into the product tax free.

However, for administrative reasons it would probably be necessary to exclude small manufacturers from the tax. But those small manufacturers not licensed would not be able to purchase their raw materials tax free.

In addition to the single uniform rate on all sales of finished goods by manufacturers, it would probably be necessary to tax luxury items at a higher rate. While rate differentiation on the basis of the extent to which a commodity is considered a 'luxury' may be unnecessary in an affluent society like the United States, it is probably not possible to completely eliminate rate differentiation in an underdeveloped country like India, where the notion of a 'luxury' is somewhat more meaningful.[263] The number of different rates of Additional Excise Duty that should be levied is a somewhat arbitrary matter. It would probably be best to levy three or four rates in a manner similar to the purchase tax. Thus, the

Additional Excise Duty might be levied at the following rates: 15 per cent, 35 per cent and 85 per cent.[264] On neutrality and administrative grounds it would be desirable to keep the number of different rates levied as low as possible. The General Manufacturers' Excise Tax should be regarded merely as a source of revenue, and the rate should remain fixed for extended periods of time. The Additional Excise Duties, on the other hand, may be used as instruments of fiscal policy to influence consumption and inflation. Thus, the Executive should be given power to vary these rates within specified limits.

The General Manufacturers' Excise Duty would be different from the existing excise system in three major ways:

(1) There would be less rate differentiation.
(2) All commodities would be taxed on an *ad valorem* basis.
(3) Only finished products of manufacturers would be taxed; in general, raw materials and semi-finished products would not be taxed.

The feasibility of reducing rate differentiation is partially dependent upon the feasibility of a complete shift from a specific to an *ad valorem* basis of levy.[265]

Summary of the Main Recommendations on Excise Taxation

There has been a tendency for the government to become so engrossed in the minor alterations of the excise system from year to year that it loses sight of some of the main objectives of the excise system. This haphazard growth of the excise system has led to the irrational, unwieldy excise system of today. Hence there is a great need for simplification and rationalization of the present excise system.

It has been argued that it is desirable to restrain the tendency to use excise taxation for minor policy reasons. There is a need to move away from the excessive 'interventionism' of the present excise system, towards a greater degree of neutrality. The Indian excise system embodies a wide variety of exemptions and concessional rates. Many of these exemptions introduce too much in the way of evasion possibilities and administrative difficulties to be worthwhile. Many narrow exemptions probably result in more loss of revenue by way of evasion (or for administrative costs in preventing evasion) than gain to the intended recipients.

The desirability of using exemptions and concessional rates of excise duties to provide special advantages for small-scale producers has been questioned. The greatest criticism of excise exemptions and concessions in favour of small-scale manufacturers is that they encourage fragmentation and/or restrict expansion. If it is really felt to be desirable to give aid to small-scale manufacturers, then direct subsidies would be preferable. While the use of excise preferences for the small-scale sector within an industry is undesirable,

those industries where small-scale manufacturers predominate might be exempted from excise duties on administrative grounds. It is better to abolish excise duties on those commodities which are administratively difficult to tax because of the existence of an important and widely dispersed small-scale sector.

In order to achieve a more efficient allocation of resources it is desirable to completely exempt raw materials and component parts from excise duties. Insofar as it is administratively possible excise duties should be levied only on finished products.

In light of the urgency of India increasing her exports, it is desirable to eliminate the burden of excise duties on exported commodities. While the present schemes allow rebate of duty borne on exciseable goods at the stage of final manufacture before export, there generally is no provision for refund of the excise duty borne by raw materials and components. It is desirable to eliminate the full burden of excise duty on exported products (including the excise duty paid on raw materials and components). Where it is difficult to ascertain precisely the amount of raw materials and component parts that have gone into the finished exported product, it may be necessary to fix *ad hoc* rates of rebate on broad estimates of their impact.

While changes in excise duty rates generally should not be related to profit levels, in some instances they may be an effective means of improving the allocation of scarce goods and absorbing profits which are largely the result of certain government controls. The question of the desirability of using excise duties as a means of mopping up surplus profits cannot be separated from the larger question of the desirability of the various government controls on the allocation of and prices of scarce resources. In many instances excise duties are probably more effective than price controls as a means of allocating scarce resources and eliminating excessive profits. However, shifts in excise duties should not be used as a means of stabilizing the markets for specific products.

While the heterogeneity of some commodities makes it impossible to levy specific excise duties on all commodities, most of the excise duties are levied on a specific, rather than *ad valorem*, basis. However, there is a good case for increased (and perhaps complete) reliance on *ad valorem* excise duties. The main criticism of specific excise duties is that they reduce the income elasticity of the excise system during the periods of inflation. Specific duties are defended primarily on administrative grounds. It is argued that *ad valorem* excise duties involve considerable valuation difficulties. In the case of many (if not most) commodities at present subject to specific excise duties, the valuation difficulties involved in a shift to *ad valorem* duties would not appear to be significant. In any case, it is preferable to use *ad valorem* duties whenever the sale price must be ascertained in order to apply the specific rates anyway.

There is extreme rate differentiation in the excise system, for which in many cases there seems to be no logical basis. The mere existence of such differentiation is probably due to the fact that many of the duties are specific in nature, and the *ad valorem* rates on commodities often are not known. The haphazard growth of the excise system over the years has resulted in many anomalies in the present rate structure. The incredibly arbitrary and haphazard rate structure of the existing excise system is badly in need of reform. A widespread shift to *ad valorem* duties probably would facilitate such reform.

Frequent changes in excise duty rates have an unsettling effect on producers, consumers and tax administrators. The efficiency of the tax administration is reduced by frequent changes in the statutes and notifications. Hence, there is a good case for a reduction in the number of rate changes that occur annually. As far as possible, changes in rates of particular excise duties should take place only at the time of passage of the annual budget.

While it would be desirable to levy additional duties of

excise in place of sales taxes on additional commodities, it does not appear likely that the States will be willing to agree to such a proposal. The States would have to be assured of at least as much revenue as they could expect from continuance of sales taxation on the commodities that are being considered for replacement by additional duties of excise. In regard to the three commodities on which additional duties of excise have already been levied, the States appear to be correct in contending that they would have received more revenue if they had continued to levy sales tax on them. The main reason for this is that while the basic excise duty rates on these commodities have been increased, the additional excise duty rates have remained constant. Thus, whenever the basic excise duty rates are increased, the additional excise duty rates should be raised proportionally. There is another factor which might make at least some States reluctant to consider extending additional duties of excise to more commodities. The fact that each Finance Commission has seen fit to adopt new principles for allocating the balance of revenue from additional excise duties (and that these changes have substantial effects on the percentage shares of various States) inevitably leads at least some States to be reluctant to adopt the scheme for additional commodities. Thus, it would be desirable to have the Finance Commissions be considerably less mercurial in their adoption of principles for the allocation of revenue from additional duties of excise.

While the modified form of value-added tax recommended by Mr. Bhoothalingam is too sophisticated and complex for an underdeveloped country, he was correct in his emphasis on the need for simplification and rationalization of the present excise system. There is a need to move away from the excessive interventionism of the present excise system towards a greater degree of neutrality. It is also desirable to eliminate the multiple taxation and the excessive and irrational rate differentiation of the present system.

It would be desirable to make the following basic changes in the present excise system: (1) most, if not all commodities should be taxed on an *ad valorem* basis; (2) there should be considerably less rate differentiation (a basic rate, plus three or four higher rates should be sufficient); (3) only finished products should be taxed (raw materials and semi-finished products should not be taxed, except where there are great administrative advantages to placing the excise duties at this stage).

PART III : SALES TAXATION

1. Types of Sales Taxation

There are five basic types of sales taxation in existence in various parts of the world. First there are the multi-stage sales taxes, and the value-added tax. Then there are three basic types of single stage sales taxes: the manufacturing, wholesale and retail sales tax. Each of the five types is susceptible to varying degrees of generality and of rate differentiation.

A. Multiple-Stage Sales Tax

A multiple stage sales tax[266] in its pure form applies at a uniform rate to all stages of the production and distribution process—the tax is placed on all transactions through which commodities pass on the way to the consumer. This type of taxation was widely adopted by European countries, but, in general, it has either been discarded or has become extremely complex.[267] The major advantage of the multiple stage sales tax over single stage sales taxes is basically political; it can raise a given amount of revenue at a lower rate of tax. This lower rate also tends to simplify administration somewhat as it reduces the gains to be achieved by evasion of the tax. However, it has been maintained by John Due that in practice "the inequities of the multiple stage taxes as among various business firms are

so great as to cause greater pressure towards evasion than is offered by the higher rates of the single stage taxes."[268]

Multiple stage taxation has many disadvantages, principally due to its cumulative nature, which may result in discrimination, according to the number of transactions affecting any given product, and in non-uniformity of consumer burden. The most important disadvantage of the multiple stage form of sales tax is that it results in discrimination against non-integrated firms, and encourages integration in both production and distribution. This tax encourages all forms of vertical integration. Manufacturers are given strong incentive to produce their own materials, supplies and parts used in production, rather than to purchase from independent suppliers. Similarly, there is an incentive for manufacturers to sell directly to retailers, thereby eliminating the wholesale stage, or even to sell directly to the consumer, thereby eliminating the retail stage as well. There have been attempts to counteract this tendency towards general integration either by increasing the rate for integrated concerns or by imposing surcharges on integrated concerns.

> However, "without exception, these adjustments have not only failed to accomplish fully the desired results, but have also created new inequities and have seriously complicated the operation of the taxes. Whenever varied rates are applied to different transactions, the problems of delimitation of the various transactions become tremendous."[269]

The other major disadvantage of multiple stage sales taxes is that they result in non-uniformity of the consumer burden. The cumulated burden on various goods will constitute varying percentages of the retail selling prices of the goods, depending on the number of transactions through which the goods pass on their way to the consumer. This places a discriminatory burden on those consumers with relatively high preferences for the goods which pass through numerous transactions.

Multiple stage taxes also make for difficulties in

dealing with foreign trade. It is difficult to ascertain the tax burden appropriate for making export rebates (or countervailing import duties) to assure equality of competition between domestic and foreign products.

In brief, multiple stage sales taxation has generally come to be regarded as the least desirable form of sales taxation. John Due has concluded that "on administrative as well as economic and equity grounds the objections to the multiple stage form are so great as to suggest its complete rejection, regardless of circumstances."[270]

B. Value-Added Tax

The value-added tax, as the name implies, applies only to the value added by each firm through its production or distribution activity (roughly, the difference between gross receipts and the sum paid for materials purchased from other firms). The value-added tax overcomes the major disadvantages of the multiple stage sales tax, namely, the discrimination against non-integrated firms (and incentive towards further integration) and the uneven burden on various commodities. A value-added tax extended through the retail level has the same final impact as a retail sales tax (assuming the tax is shifted forward), since the total value added to the commodity equals the retail selling price. The value-added tax shares with the multiple stage sales tax the characteristic of being able to yield any given income at relatively low rates, since it applies to a larger number of firms. Spreading the direct impact of the tax over a larger number of firms may be advantageous to a country such as France, where, as a practical matter, it is very difficult to collect heavy taxes from retailers.

In practice, the value-added tax as it exists in France has been greatly complicated by numerous exemptions and differentiation of rates.[271] Moreover the French value-added tax is a partial, rather than a general measure, as it extends only up to the wholesale stage. A value-added tax levied at the manufacturing stage was tried in the United States in the State of Michigan, but has recently been abolished.

In 1949, the Shoup Mission proposed the value-added tax for Japan. The Shoup Mission gave careful consideration to the possibility of using a single stage retail sales tax, but rejected it because of the difficulty of ensuring payment by the tremendous number of small retailers, who if they evaded the tax would endanger the collection of tax on the entire value of the product, rather than only the value added at the retail stage.[272]

In recent years, the value-added tax has received considerable attention both at the theoretical level and in actual operation in France. A form of value-added tax was introduced in Finland in 1964 and the tax is likely to be adopted by the Common Market countries. However, it is generally felt that this form of sales taxation is too complex for the underdeveloped countries. Any consideration of its adoption must take into account the large number of tax-payers involved, the increased cost and complexity of administration and the more onerous record-keeping burdens placed on tax-payers.

C. Single Stage Sales Tax

The single stage form of sales tax, by striking each commodity only once as it passes through production

and distribution to the consumer, avoids the complications and unnecessary effort created by the multiple stage form. The single stage sales tax is able to avoid the major disadvantages of the multiple stage sales tax, namely the discrimination against non-integrated firms and the discrimination against consumers with relatively strong preference for products passing through a large number of transactions.

In many respects, the most satisfactory form of sales tax is the retail form, under which the tax is collected only at the final sale to the consumer. This form insures complete uniformity of the rates of tax to consumption expenditures on various goods (assuming complete shifting), since the tax is imposed directly upon the final sales price.[273] Alternatively, if a certain variation in the rates of tax to consumption expenditures on various goods is desired, this can be achieved. In contrast, with wholesale and manufacturers sales taxes, the ratio of tax to consumer expenditures will vary according to the size of the margins of distributors of various goods.[274] The retail tax also avoids the 'pyramiding' of tax that occurs under the wholesale and manufacturers tax when dealers apply fixed percentage markups to purchase prices which *include* the tax. Another advantage of the retail tax is that it permits the use of a lower tax rate than the other single stage forms to obtain a given sum of revenue, because the retailers' margins are included within the tax base. The retail tax can easily be made clearly evident to the consumer, through quotation of the tax separately from the price of the product. It is contended that this is:

> Important from the standpoint of maintaining tax consciousness on the part of the consumers, the groups actually bearing most of the burden, and should be of assistance in attaining optimum levels of governmental activities.[274a]

Finally, rumoured changes in tax rates do not cause dealers to attempt to shift their inventory position. On the other hand, the retail form of tax must be

collected from a large number of taxpayers many of whom are small firms with poor book-keeping. Administration of the retail tax is extremely difficult, and relatively costly, when a large portion of the retail trade is carried on by very small shops and stands. In such circumstances, widespread evasion would be inevitable. As John Due comments: "It is this argument, virtually alone, which has deterred most countries from using the retail tax."[274b] In spite of its many advantages, it is generally felt that a retail sales tax will function effectively only in an economy in which the great bulk of retail sales are made through stores large enough to enable adequate records to be kept.

The problem of collection of tax from a very large number of small retailers may be overcome by shifting to a wholesale sales tax (which is generally collected from all firms selling to retailers, whether they be wholesalers, manufacturers or importers). The wholesale tax can be collected from a relatively small number of firms, which tend to keep better records than retailers. This has led a number of economists to feel that a wholesale sales tax is the most satisfactory form for underdeveloped countries.[275] On the other hand a wholesale sales tax results in 'hidden' prices, pyramiding,[276] and valuation problems, but these are not as great as when a manufacturers sales tax is levied. Another problem that arises is when a large retailer buys directly from the manufacturer, thereby skipping the wholesale stage. In order to minimize discrimination it would be necessary to 'uplift' the manufacturer's price to arrive at a price 'equivalent' to the wholesale price for tax purposes. This problem has caused considerable difficulty in regard to the British Purchase Tax.

In most countries there are far fewer manufacturers than retailers or wholesalers, and a higher percentage of them are large firms with adequate book-keeping systems, and are less inclined towards direct evasion of tax.[277] The Canadian experience has demonstrated that a manufacturers sales tax can be collected with a

high degree of efficiency and with very little cost to government.[278] However, the further one moves from the retail level, the more one runs into difficulties in the definition of the appropriate tax base. The manufacturers sales tax faces formidable valuation problems. The greatest difficulty with the Canadian manufacturers sales tax has been with respect to the determination of the price for tax purposes in the case of sales by manufacturers to retailers or consumers.

If some sales in an industry are made to wholesalers, while others are made directly to retailers and final consumers, discrimination arises against the direct sales if the tax is applied to the actual selling price. The price (and the tax) is likely to be higher in the case of direct sales since the manufacturer is performing some distribution functions.[279] In attempting to overcome such discrimination the Canadian tax authorities have evolved what they call 'established wholesale prices' and 'determined wholesale prices'. The 'established wholesale price' was the price established by the manufacturer on sales to independent wholesalers in representative quantities. When a manufacturer sold directly to retailers or consumers, as well as to wholesalers, he paid tax on his 'established wholesale price'. When the manufacturer sold only to retailers or consumers a comprehensive survey of the industry was conducted to arrive at average discounts which, when deducted from suggested retail list prices, would bring the price back to the wholesale level, and this was referred to as the 'determined wholesale price'.[280] Many such adjustments will necessarily be quite arbitrary. This valuation problem was a significant factor leading the Carter Commission, in Canada, to recommend shifting from a manufacturers sales tax to a retail sales tax.[281]

To the extent that production is carried on by small household artisans, administration and collection of taxes may be just as difficult as in regard to small retailers. The 'pyramiding' problem is greater with a

manufacturers sales tax than with a wholesale tax. For a country which relies heavily on imports, the wholesale tax may be preferable to the manufacturers tax.

> The imported goods, not being manufactured within the country, must be taxed at the time of importation under a manufacturers tax. As a consequence, problems of ascertaining the taxable price are more troublesome. Under the wholesale tax, the tax rate is applied to an actual domestic selling price, that of sale by the importers to a dealer (except in the case of imports directly by retailers). Fewer debatable questions therefore arise about the appropriate taxable price. This consideration was the primary factor leading Australia, for example, to adopt the wholesale tax rather than the manufacturers sales tax.[282]

2. History of Sales Taxation in India

Various types of selective sales taxes are said to have existed in many of the early periods of Indian History, under Hindu, Mughal and East India Company rule. There are references to sales tax in many of the ancient writings of the Mauryan and Gupta periods.

> The earliest traces of sales tax in India can be found in the Sastras where there is ample reference to sales tax in different names and forms.[283]

However, the modern form of sales taxation, that exists in all of the States of India today, is a very recent phenomenon. The Government of India Act, 1935 gave power to the Provincess to levy 'taxes on the sale of goods and on advertisements'.[284] The Province of Bombay was the first to take advantage of this provision when it levied a tax on the sales of tobacco within certain very limited urban and sub-urban areas.[285] The Bombay Tobacco (Amendment) Act, 1938, first came into force on the 24th March, 1938. In the same year, the Central Provinces (now called Madhya Pradesh) levied a retail sales tax on motor spirit and lubricants. This legislation was immediately contested by the Central Government which maintained that Entry 45, List II, of the Government of India Act, 1935 gave the Central Government the right to levy excise on tobacco and other goods manufactured or produced in India. The Central Government contended that the Central Provinces petrol tax was unconstitutional, since the Central Government had been

given the right to levy excise on such products. However, the Federal Court supported the right of the Provincial Government to levy such a tax, observing that as regards goods centrally excisable, taxes on their sales within the Province for the purpose of consumption, when such taxes are in no way connected with their production or manufacture, within the Province, but are imposed on their sale in the Province merely as existing articles on trade and commerce, should be exclusively within the competence of the Provincial Legislature.[286]

A 'general' sales tax was first levied in Madras, in the form of a multi-point tax at the low rate of 1/2 per cent. The Madras General Sales Tax Act, which was passed in October, 1939, was introduced primarily to make up for the loss of revenues as a result of the initiation of a policy of prohibition. The Central Government, also challenged the legality of this Act, questioning the right of the Provinces to tax sales by manufacturers. However, once again, the Federal Court decided in favour of the Provincial Government, observing that the sales tax on a manufacturer or producer could not be distinguished from a tax on other sales and that the Provincial Government had the power to tax sales of every kind, including sales by a manufacturer or producer.[287] In brief, then, the Federal Court had declared excise to be a tax on the act of production or manufacture, whereas the sales tax was levied on an act of sale. The two judicial interpretations mentioned above established the competency of the States to tax *sales* at any stage and of any commodity.

During the next decade, sales taxation was introduced by most of the Indian States. In 1941, Bengal adopted a single point general sales tax system levied at the retail level. In the same year the Punjab introduced a general sales tax, modelled after the Madras system. A general sales tax of the Bengal type was introduced by Bihar in 1944 and by Bombay in 1946. In the next

two years, general sales taxes were introduced in Assam, Madhya Pradesh, Orissa and Uttar Pradesh. Since 1948, all of the States have introduced a general sales tax,[288] as well as a selective sales tax on petroleum. The sales tax systems originally introduced have undergone substantial modifications[289] and were occasionally replaced by altogether different systems. For instance, the Punjab changed from a multi-point to a single-point system, while Bombay proceeded from a single-point to a multi-point and later to a double point system.

A. Taxation of Inter-State Sales

Perhaps, the most important problem relating to sales taxation in the pre-Constitution period was the taxation of inter-State sales. All the Provinces, with the exception of West Bengal, were collecting sales tax on goods being sent to other Provinces and were, in effect, indulging in 'beggar-my-neighbour' policies. By the Amendment Act, 1947, the Madras Government amended the definition of the term 'sale', so that the presence of goods in the State, at the time of the contract of sale, or their production in the State after the contract of sale, was made sufficient for attracting liability to sales tax.[290] Other States made similar provisions in their sales tax laws enabling them to tax goods exported from one State to another. Sales tax was also levied on exports to foreign countries, and, in effect, on imports from foreign countries. An instance of the latter was the levy imposed by the Government of Bombay, from April 1, 1949, on the export of non-exempted articles outside the Province. In practice, Bombay being a port, it turned out that the

Government of Bombay collected a toll from inland Provinces, even on goods imported and stocked by Bombay importers, for sale outside the Province. Section 297(1)(b) of the Government of India Act, 1935, provided that in the levy of taxes, no Province might discriminate against goods produced or manufactured outside the Province. Except for this section, there was no provision in the Government of India Act which restricted or prohibited the Provinces from levying taxes on inter-State transactions and which required the Provinces to levy tax only on those transactions which exclusively took place in their respective territories. Thus, on what was called the theory of 'territorial nexus', the Provinces levied taxes on the sale of goods even though only one or two ingredients of the sale had taken place within their respective territories. The result of the nexus theory was multiple taxation of the same transaction by different Provinces. The position existing on the eve of the Constitution was well summarized in the following observations of the majority opinion in *State of Bombay v. United Motors.*

> In exercise of the legislative power conferred upon them in substantially similar terms by the Government of India Act, 1935, the Provincial Legislatures enacted sales tax laws for their respective Provinces, acting on the principle of territorial nexus referred to above; that is to say, they picked out one or more of the ingredients constituting a sale and made them the basis of their sales tax legislation. Assam and Bengal made among other things the actual existence of the goods in the Province at the time of the contract of sale the test of taxability. In Bihar, the production or manufacture of the goods in the Province was made an additional ground. A net of the widest range perhaps was laid in Central Provinces and Berar where it was sufficient if the goods were actually 'found' in the Province at any time after the contract of sale or purchase in respect thereof was made. Whether the territorial nexus put forward as the basis of the taxing power in each case would be sustained as sufficient was a matter of doubt not having been tested in a court of law. And such claims of taxing power led to multiple taxation of the same transaction by different Provinces . . . . [201]

A conference of the Finance Ministers of the various States was held in 1948 to explore the possibility of achieving some degree of uniformity in the taxation of inter-State sales. However, there was much disagreement concerning the modifications that were needed and little in the way of tangible results was achieved.[292] Those States which produced important raw materials or manufactured articles were opposed to changes that would result in the exclusion of foreign and inter-State trade from the purview of their sales taxes, and, consequently, would result in a considerable loss of revenue. However, it was not long before Article 286 of the Constitution of India (1950) made provision for the regulation of taxation of inter-State sales.

Under Entry 54 of the State List in the Seventh Schedule to the Constitution, the States were given power to levy "a tax on sales or purchases of goods other than newspapers". This provision was quite similar to Entry 48 (List II) of the Government of India Act, 1935.[293] However, under the Constitution the States' power to levy sales tax was subject to a greater number of restrictions. Article 286 of the Constitution reads as follows:

286—*Restriction as to imposition of tax on the sale or purchase of goods.*

(1) no law of a State shall impose, or authorize the imposition of, a tax on the sale or purchase of goods where such sale or purchase takes place
   (a) outside the State; or
   (b) in the course of the import of goods into, or export of goods out of, the territory of India.

   Explanation—For the purposes of sub-clause (a), a sale or purchase shall be deemed to have actually been delivered as a direct result of such sale or purchase for the purpose of consumption in that State, notwithstanding the fact that under the general law relating to sale of goods the property in the goods has by reason of such

sale or purchase passed in another State.

(2) Except in so far as Parliament may by law otherwise provide, no law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of any goods where such sale or purchase takes place in the course of inter-State trade or commerce . . . .

(3) No law made by the Legislature of a State imposing, or authorising the imposition of, a tax on the sale or purchase of any such goods as have been declared by Parliament by law to be essential for the life of the community shall have effect unless it has been reserved for the consideration of the President and has received his assent.

These Constitutional restrictions on sales taxation greatly increased the scope for evasion. While the problem before the Constitution had been multiple taxation (by different States) on the same act of inter-State sale, the problem after the Constitution was that inter-State sales frequently escaped taxation altogether.

In the case of *State of Bombay v. United Motors*, Article 286 was held to prevent the exporting State from imposing sales tax on goods exported to another State[294] However, the Supreme Court, in the same case, interpreted the provisions of Article 286 so as to permit the importing State to tax a transaction of sale or purchase even though it took place in the course of inter-State trade or commerce and even though the person to be taxed was resident outside its territory, provided that the goods were delivered in the importing State for the purpose of consumption therein. Soon the States started to levy sales taxes on such transactions and this involved the assessment and collection of tax from selling dealers not situated in the importing State. This meant that an exporting dealer had to register himself and be liable to tax not only in his own State but also in all States to which he exported goods. The difficulties this

caused for exporting dealers were pointed out by the Supreme Court in the subsequent case of *Bengal Immunity Co. v. State of Bihar*[295] as follows:

> All big traders will have to get themselves registered in each State, study the Sales Tax Act of each State, conform to the requirements of all State Laws which are by no means uniform and, finally, may be simultaneously called upon to produce their books of account in support of their returns before the officers of each State. Anybody who has any practical experience of the working of the sales tax of the different States knows how long books are detained by the officers of each State during assessment proceedings . . . . The harassment to traders is quite obvious and needs no exaggeration.

In the *Bengal Immunity* case the Supreme Court held that it was *intra vires* of any State to tax sales of an inter-State character, and it thereby overruled the *United Motors* case, in as far as it had permitted the importing State to tax a transaction of sale or purchase when goods were delivered therein for the purpose of consumption. Thus, the problem of exporting dealers having to pay sales tax in each State in which they sold was eliminated. However, as a result of this decision, inter-State sales to the consumer or to unregistered dealers escaped sales taxation altogether.

This new problem arising from the Constitutional restrictions, and the Supreme Court's interpretation of them, was well summarized by the Taxation Enquiry Commission as follows :

> Traders in one State started to sell direct to unregistered dealers and consumers in another. Similarly, consumers of valuable commodities tried to get these from dealers in another State rather than buy the article from their local dealers. The practice grew for sales of goods within a State itself to be shown in the books of accounts as having been made to fictitious dealers outside the State and the goods having been re-sold by those dealers to consumers within the State. For valuable commodities like motor vehicles, jewellery, watches, etc. this practice became very common. On transactions which could be shown to be in the course of inter-State trade, the 'exporting' State was prohibited under Article 286 from levying the sales tax; and if the goods delivered as a result of these transactions were shown to

> be received by individual consumers or unregistered dealers neither could any tax be levied on them by the 'importing' State. Thus many of these transactions escaped sales tax altogether.[296]

In brief, then, there was a serious diversion of trade into artificial channels which was purely the result of the Constitutional restriction and had no economic justification. Before discussing the Central Sale Tax Act, which was an attempt to solve the problems of inter-State sales mentioned above, it is desirable to look at one more problem that arose from the Constitutional restrictions on sales taxation.

B. Essential Goods Act, 1962

Besides prohibiting States from levying any tax on sales or purchases in the course of foreign trade or inter-State trade, the Constitutional restrictions also enjoined the States not to tax sales or purchases of goods declared by Parliament by law to be essential for the life of the community except with the previous consent of the President. In 1952, Parliament enacted the necessary law, entitled the Essential Goods (Declaration and Regulation of Tax on Sale or Purchase) Act, 1952. In this Act the following goods were declared as 'essential' for the life of the community:[297]

(1) Cereals and pulses in all forms, including bread and flour, including *atta*, *maida*, *suji*, and *bran* (except when any such article is sold in sealed containers).

(2) Fresh and dried fruits, sugarcane, cocoanuts, vegetables, edible tubers, vegetable and flower seeds, bulb and plants, excluding orchids (except medicines prepared from these) or when sold in sealed containers.

(3) Fresh milk, whole or separate, and milk products, including butter, *ghee*, *chana*, *khoa*, but excepting sweetmeats.
(4) Meat, fish, eggs (except when sold in sealed containers)
(5) Edible oils, and oilseeds from which edible oils are extracted.
(6) *Gur*
(7) Salt
(8) All cloth, woven on handlooms, coarse and medium cloth made in mills or woven on powerlooms.
(9) Raw cotton, cotton yarn, cotton seeds, jute seeds, raw jute, sun-hemp and *mesta*.
(10) Hides and skins.
(11) Fertilizers and manures, agricultural machinery and implements, including parts of such machinery and implements.
(12) Cattle feeds.
(13) Coal, including coke and other derivatives, petroleum and petroleum products, including kerosene and motor spirit.
(14) Iron and steel.
(15) Books, exercise books, slates and slate pencils and periodical journals.

This Act evoked a considerable amount of criticism from the State Governments. Perhaps, the most important injustice of the legislation was that it was not retrospective. States which had been levying sales tax on 'essential' goods before the passage of this Act were permitted to continue to levy the tax, but in the case of States seeking to levy such a tax, the previous consent of the President became necessary. Since many of the articles declared to be 'essential' were already subject to sales taxation in a number of States, they would continue to be subject to sales taxation since the Act was not retrospective.[298] This Act was subjected to sharp criticism by the Taxation Enquiry Commission which commented as follows :

> It is obvious that the object of restricting the power of the States to levy a tax on the sale or purchase of essential goods is to achieve some degree of uniformity in the tax burden on those goods, and not necessarily or in all cases to eliminate altogether the sales tax on such goods.... Secondly, the list of 'essential goods' includes goods which cannot, except by a wide interpretation, be regarded as 'essential' to the life of the community.... (Moreover), on some of the goods declared essential to the life of the community the Central Government themselves levy relatively high taxes in the form of excise or customs duties.[299]

In brief, the Taxation Enquiry Commission felt that the purpose of the legislation was, or in any event, should be, to achieve some degree of uniformity in the taxation of inter-State trade, rather than to prohibit taxation of commodities deemed to be 'essential' to the life of the community. The T.E.C. emphasized the importance of the distinction in principle between 'essentiality' and 'inter-State trade' as grounds for limiting the relevent powers of the States. It criticized this overlapping in the Act of the different concepts of essentiality and importance from the point of view of inter-State trade.[300] Moreover, it pointed out that in some cases (such as petroleum) the result of applying the 'essentiality' provision was to put a statutory bar on increasing the sales tax levy on an article, without any corresponding restriction as to the duties of customs or excise or both leviable on the article.[301] The T.E.C. posed the question of whether in its purely internal aspect relatable to the interests of the consumers of a particular State, should the Parliament, in addition to the State Legislature, have the power to declare that certain goods should be free of sales tax or be charged not more than a certain rate of sales tax? It concluded that:

> Where the State is in effect taxing its own consumer, it should not be open to Parliament to exercise concurrent power in regard to the declaration of certain articles as exempt from sales tax.[302]

In brief, the T.E.C. felt that the taxation of inter-State sales should be the concern of the Union, while the

decision as to what commodities should be exempt from inter-State sales taxation should be solely the concern of the State Governments.[303]

As we have seen, the only provision of Article 286 which had not given rise to real problems was sub-clause (b) of clause (1) which prohibits States from levying a tax on sales or purchases which take place "in the course of the import of goods into, or the export of goods out of, the territory of India." Thus, there was widespread agreement for amendment of Article 286.

C. Central Sales Tax Act

Mainly on the recommendations of the T.E.C. the Constitution was amended by the Sixth Amendment Act of 1956 and the Central Sales Tax Act was enacted in 1956 by Parliament. On the whole, this Act embodies the propositions put forward by the Taxation Enquiry Commission.[304] The Constitution (Sixth Amendment) Act gave the following powers to the Parliament: (1) To impose "taxes on the sale or purchase of goods. . . .where such sale or purchase takes place in the course of inter-State trade or commerce" [Entry 92A, List I (Union List) of Seventh Schedule].

(2) To formulate principles for determining when a sale or purchase takes place outside the State or in the course of import of goods into, or export of goods out of, the territory of India [Article 286 (2)].

(3) To put "such restrictions and conditions in regard to the system of levy, rates and other incidents of the tax as Parliament may by law specify" on State tax laws, with regard to goods declared by Parliament to be of special importance in inter-State trade or commerce [Article 286 (3)].

At the same time Entry 54 of List II (State List) was made subject to the provisions of the new Entry 92A of List I (Union List).[305] Prior to this Amendment the Explanation of Article 286(1) had defined a sale outside the State and this definition had resulted in considerable legal uncertainty. The Amendment Act now gave Parliament the power to define a sale outside the State, thereby, enabling easy amendment of the definition without the need for a Constitutional Amendment in case of difficulty. The new Article 286(3) did away with the power of Parliament to restrict State taxation of commodities declared by Parliament to be 'essential for the life of the community'. Instead Parliament was now empowered to restrict State taxation of goods declared to be of special importance in inter-State trade or commerce.

The Sixth Amendment Act of 1956 laid the basis for the passage of the Central Sales Tax Act in 1956, probably, the most important piece of sales tax legislation in post-Independence India. Three main objectives of the Central Sales Tax Act were stated in the Preamble, as follows:

(1) To formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade or in the course of import into or export from India;

(2) To provide for the levy, collection and distribution of taxes on sales of goods in the course of inter-State trade or commerce; and

(3) To declare certain goods to be of special importance in inter-State trade or commerce and specify the restrictions and conditions to which State laws imposing taxes on the sale and purchase of such goods of special importance shall be subject.

Section 3 of the Central Sales Tax Act stated that a sale or purchase of goods shall be deemed to take place in the course of inter-State trade if it:

(a) occasions the movement of goods from one

State to another, or

(b) is effected by a transfer of documents of title to the goods during their movement from one State to another.

In order to avoid possible confusion, in explanation 2 to section 3, it was specifically pointed out that where the movement of goods commences and terminates in the same State but passes through the territory of any other State, it shall not be deemed to be a movement of goods from one State to another. In order to avoid multiple taxation of the same sale transaction, section 4 states that when a sale or purchase of goods is determined to take place inside a State, such sale or purchase shall be deemed to take place outside all other States.

Section 5(1) gives the following definition of sales in the course of export:

> A sale or purchase of goods shall be deemed to take place in the course of export of goods out of the territory of India only if the sale or purchase either occasions such export or is effected by a transfer of documents of title to the goods after the goods have crossed the customs frontiers of India.

We will observe later that in light of India's need for increased exports, this is a rather restrictive definition of an export sale. The definition of sale in the course of import is similar to that given above for exports.

Section 14 of the Central Sales Tax Act declares the following goods to be of special importance in inter-State trade and commerce:

(i) coal (including coke)
(ii) cotton, cotton fabrics and cotton yarn
(iii) hides and skins
(iv) iron and steel (including iron scrap)
(v) jute
(vi) oil seeds
(vii) rayon or artificial silk fabrics
(viii) sugar
(ix) tobacco
(x) woollen fabrics
(xi) silk fabrics[306]

Section 15 of the Act specifies that a State's sales tax on such goods inside the State shall not exceed three per cent[307] of the sale or purchase price and that such tax shall not be levied at more than one stage. In the case of inter-State sale of declared goods the rate of tax shall be the same as the rate applicable to the sale or purchase of such goods inside the exporting State. Moreover, where a sales tax has been levied inside the State on any declared goods and such goods are sold in the course of inter-State trade or commerce, the tax so levied shall be refunded.

The Act provides that where 'non-declared' goods are sold in the course of inter-state trade or commerce to the Government (Central or State) or to a registered dealer the rate of tax shall not exceed three per cent.[308] On inter-state sale of 'non-declared' goods to consumers or to dealers not registered under the Central Sales Tax Act, the rate of tax is ten per cent,[309] except that wherever the rate of tax under the local law of the exporting State is higher than ten per cent on any goods, the said higher rate applies to the inter-state sale. In any of the above sales, the rate of tax is lower than three per cent or nil if the rate of tax is generally lower than three per cent or generally nil on inter-state transactions within the exporting State. In brief, the three per cent rate[310] is a maximum rate, while the ten per cent rate[311] is a minimum rate. Hence, on inter-state sales of non-declared goods to consumers or non-registered dealers the rate of tax is ten per cent or that prevalent in the exporting State, whichever is higher, but if the rate of tax on such goods is less than three per cent (or exempt) in the exporting State, then this lower rate (or exemption) will apply to the inter-state sales as well. Thus, if the rate of tax in the exporting State is three per cent, on particular non-declared goods, the inter-state sales of those goods to a consumer or non-registered dealer will be subject to a tax of ten per cent, but if the rate of tax on these particular goods in the exporting State is 2½ per cent, then the rate of

tax on the inter-state sale shall be $2\frac{1}{2}$ per cent.

The three main objectives of the Central Sales Tax Act were: (1) to eliminate the complete evasion of sales taxation by means of out-of-state purchases, (2) to provide for a degree of uniformity and to set a maximum rate of sales taxation on certain raw materials of considerable importance to the whole country; and (3) to provide some sales tax revenue to the exporting States.

The Central sales tax is complementary to the sales taxes levied by the States and administration of the law is entrusted to the States. The scheme of administration under the Act is that the Centre levies the tax but authorizes the exporting State to assess and collect the tax on its behalf and retain it for the State's use.[312]

Unlike all of the State Sales Tax Acts, the Central Sales Tax Act does not prescribe any minimum turnover of inter-state sales for a dealer before he is required to register himself.[313] Thus if a dealer makes a single sale in inter-state commerce he is required to get himself registered.

While every dealer *selling* in inter-state commerce is required to get himself registered, any dealer *buying* in inter-state commerce *may* register himself if he is liable to pay tax under the sales tax law of the State in which his business is situated notwithstanding that he does not make any inter-state sale and is not liable to tax under the Central Sales Tax Act. This provision enables a dealer buying goods inter-state to register himself and be entitled to purchase the goods at the concessional rate of 3 per cent instead of the rate of 10 per cent or more on purchases by unregistered dealers.[314] In the absence of this provision, goods purchased in inter-state commerce by a dealer registered under the State Act but not making any inter-state sale would have been subjected to the high rate of Central sales tax (a minimum of 10 per cent) and then to the local tax of the importing State when the goods were resold in that State.

D. Central Sales Tax Act and Inter-State Commerce

At this point, it might be fruitful to discuss in more detail some of the effects of the Central sales tax on inter-state commerce. One of the most vexatious problems arising when sales taxation is in the hands of the States or Provinces of a Federation, is that of taxation of inter-state sales to consumers. Both in the United States and Canada inter-state sales to consumers generally go untaxed.[315] In India, however, the power of taxation of these transactions (as well as sales to unregistered dealers) has been given to the Central Government which has delegated the power to the exporting State. Thus, in India the main problem of taxation of inter-state sales is with regard to the rates of tax the exporting State should impose on these transactions. However, before discussing this it is desirable to look more closely at the rationale for delegating the power to tax inter-state sales to the *exporting* State rather than to the *importing* State. The Supreme Court of the United States:

> has been prone to give effect, although not entirely consistently, to the opposite view to that which prevails in India, in cases involving the validity of States taxes on inter-state sales....a general pattern of sustaining sales and use taxes by importing States and a greater tendency to strike down the sales taxes of exporting States has been displayed. The principal reasons are that in the State of the market out-of-State goods come into competition with locally produced goods, and it is there that the burden of the tax is borne by buyers.[316]

While there may be some administrative advantages to allowing the exporting State to tax inter-state sales, in theory, preference would seem to be with the importing State. What we are really attempting to achieve by taxation of inter-state sales is for the tax burden placed on the consumer to be the same irrespective of whether he purchases goods in the local market or imports them from any other State, *i.e.* to prevent incen-

tives for the uneconomic movement of goods from one State to another. If the rate of sales tax in all States were the same it would make no difference (in regard to the uneconomic movement of goods) if the power of taxation of inter-state sales were in the hands of the importing or exporting States. However, to the extent that there are differences in the tax rates of the various States there is an advantage in allowing the tax rates of the importing (and not the exporting States) to operate. When the rate of tax is higher in the exporting State than in the State of the market, such sales will be to that extent at a disadvantage as compared to local sales in the latter, and an inter-state barrier to trade results. If the rate in the exporting State is lower than in the State of the market, buyers will prefer to buy from the exporting State, assuming that there are no countervailing factors. Unnecessary movement of goods from one State to another is likely to result. On the other hand, if the tax in the importing State applies to inter-state sales as well as intra-state sales, there will be no incentive for the consumer to order goods from a dealer outside his State in order to avoid taxation, and the exporter will suffer no tax disadvantage, irrespective of the rate of tax in his own State. However, to the extent that the rate of sales tax on certain goods is lower in another State, there will still be incentive for a consumer to go to that State and purchase these goods. The Taxation Enquiry Commission was rather confused on this issue. They incorrectly stated that if avoidance of sales taxation on inter-state sales to unregistered dealers and consumers is to be prevented:

> It is necessary that transactions of this type should be taxable at the same rates which *exporting* States impose on similar transactions within their own territories. The unregistered dealers and consumers in the importing State will then find themselves unable to secure any advantage over the consumers of locally purchased articles, nor of course will they, under this system, be able to escape the taxation altogether, as many of them do at present.[317]

While it is true that they would no longer be able to escape taxation altogether, it is not true that consumers in the importing State by buying in the exporting State, would be unable to secure any advantage over the consumers of locally purchased articles. As explained above, what is important here (from the point of view of uneconomic movement of goods) is the equality between the rate of tax on inter-state sales (levied by the exporting State), and the rate of local tax in the importing State, and *not* the equality between the rate of tax on inter-state sales (levied by the exporting State) and the rate on similar transactions within the exporting State's own territory. While its analysis of this problem was incorrect the T.E.C. did perceive the inequity of the full benefit of taxation on such sales going to the exporting State. It, therefore, recommended in regard to the taxation of such sales, that:

> the proceeds in excess of the receipts from the rate normally leviable on inter-State trade and commerce between registered dealers (one per cent) should be made available to the State where the goods have been delivered. The reason for this suggestion is obvious, *viz.* that the importing State should have its due share of the tax on these transactions which it will have no opportunity of taxing itself at a subsequent stage.[318]

The main difficulty involved in switching the tax to the importing State is that the pre-Constitutional difficulty of exporters having to comply with numerous State tax laws would again appear. But this alone is not a decisive argument against such a switch. However, it should be mentioned that on fifteen luxury commodities the States are now generally imposing a tax of ten per cent.[319] Among these commodities are such items as motor cars, radios and watches. It is on such costly items that a variation in the tax rates of two States might mean a large saving in tax in absolute terms and, therefore, influence consumer purchases in inter-state commerce. To the extent that there is uniformity in the rate of tax on costly items in different States the problem of inter-state barriers to the

free movement of goods is solved.[320]

However, to the extent that the rates of taxation on specific products differ among the States, the present system of Central sales taxation of sales to unregistered dealers and consumers will inevitably interfere with the free flow of products. In order to avoid such undesirable distortion of trade patterns it would be necessary to levy the Central sales tax on such inter-state sales at the rate applying in the *importing* State, or to have all States levy similar tax rates on all products. At present on inter-state sales of non-declared goods to consumers or unregistered dealers the rate of tax is ten per cent or that prevalent in the exporting State, whichever is higher, except that if the rate in the exporting State is less than three per cent, this lower rate applies. There is no logical reason for the exporting State's rate to apply if it is less than three per cent or ten per cent or more, but not if it is three per cent or more but less than ten per cent. It would be just as logical to make the exporting State's rate apply in all cases. However, as pointed out above, the exporting States' rates are not relevant to the setting of Central sales tax rates. But if agreement can be reached among the States to tax most expensive types of commodities at the same rates, basing the Central sales tax rates at the exporting States' rates would not result in any significant interference with efficient trade patterns.

The Central Sales Tax Act imposed a tax of one per cent (now three per cent) on inter-state sales to registered dealers purchasing for resale, on sales to government and on sales to registered dealers, for manufacture or processing of goods for sale (or in mining or the generation or distribution of electricity or any other form of power). Since most of the States have no concessional tax on intra-state sales to government, there seems to be little justification for the Central tax to be imposed at a concessional rate on such inter-state sales. Thus, inter-state sales to government

should be treated the same way as inter-state sales to other dealers. Inter-state purchases of raw materials by governments for the manufacturing of goods should be subject to the same rate as purchases by manufacturers, but purchases of finished goods should be subject to the same rate as inter-state purchases by consumers.[321]

The concessional rate of one per cent (now three per cent) was imposed on inter-state sales to registered dealers buying for resale because the intra-state resale of the same goods was subject to the tax of the importing State.[322] The result of this provision is that there is some tendency for inter-state commerce to be channellized to the States where a commodity is exempted from sales tax, or where the local tax is lower than one (now three) per cent, thereby causing some unnecessary movement of goods. Similar problems exist with the provision in regard to inter-state sales to registered dealers for manufacture or processing of goods for sale:

> In some States, local purchases of raw materials by manufacturers situated in the State are exempt from tax; in others they are not. In the former cases, the tax of 1 per cent may be an obstacle to inter-state commerce. In the latter situation, the rate of 1 per cent would lead to wasteful transportation, for the local rate is usually much higher than 1 per cent and, consequently manufacturers would be induced to buy in inter-state commerce even though the local and out-of-state prices were the same . . . Although it would otherwise be in the interest of buyers to purchase goods from the nearest source of supply, the added cost imposed by local taxes may tilt the balance in favour of more distant out-of-state sources.[323]

The problem of the uneconomic movement of goods resulting from the three per cent tax on inter-state sales to registered dealers and manufacturers could be largely eliminated if the tax were shifted from the exporting States to the importing States. Alternatively, the uneconomic movement of goods resulting from the three per cent tax on inter-state sales to manufacturers could be eliminated either by imposing a three per cent tax on intra-state sales to manufacturers as well or by

doing away with taxation of sales (both inter-state and intra-state) to manufacturers altogether. The latter course has much to recommend it and will be discussed further in the chapter on 'Sales Tax Exemptions'.

To the extent that all States exempt a particular commodity, there will be no Central or local sales tax on the commodity, and hence no tax-induced uneconomic movement of goods. However, to the extent that some States tax a particular commodity at three per cent, while other States tax the commodity at a lower rate, or exempt it, there will be an incentive for registered dealers, manufacturers and Governments to purchase from the latter States. Moreover, to the extent that there is any Central sales tax at all on inter-state sales to registered dealers, the amount of tax borne by the locally produced product will be less than the amount of tax borne by the same product produced in another State (since this product will be subject to the Central sales tax when it is imported and to the local sales tax when it is subsequently sold). As far as the incentive to purchase locally produced goods is concerned, there is a difference in the impact of this three per cent (or less) Central sales tax rate on sales to registered dealers from its impact on sales to manufacturers. If the rate is the same in the exporting State as in the importing State, the manufacturer will pay the same amount of tax on his purchase of raw materials irrespective of whether he purchases out-of-State or locally. However, in the case of sales to registered dealers, the inter-state purchase of a commodity will increase the total amount of sales tax paid on the commodity (by the amount of the Central sales tax).

The existence of the Central sales tax on sales to registered dealers provides an incentive for manufacturers to set up their own distributors or retailers in those States in which they sell their products, so as to avoid this tax. While sales by a manufacturer to a registered dealer in another State are subject to Central sales

taxation, transfer of the product from the manufacturer to his branch in another State is not subject to Central sales taxation. As long as the rate of the Central sales tax on sales to registered dealers was one per cent or less, there was not very much incentive for manufacturers to set up out-of-State branches. However, now that this rate has been increased to a maximum of three per cent, there is considerable incentive for such vertical expansion on the part of manufacturers. This type of avoidance of Central sales taxation has now become a serious problem. Unfortunately it is very difficult to eliminate this type of avoidance.

The levying of a Central sales tax on intra-firm transfers is fraught with administrative and legal difficulties and does not appear feasible. Since this problem cannot be effectively coped with, there should definitely not be any further increase in the rate of Central sales taxation on inter-state sales to registered dealers. In fact, this writer feels that the interference with the free movement of goods and the inducement to avoid Central sales taxation by setting up branches, are sufficiently great already to make it desirable to reduce the rate on inter-state sales to registered dealers, to the original maximum of one per cent. If the tax is levied at a rate of one per cent or less these distorting effects of the tax would not be very significant. It might even be desirable to completely abolish this three per cent (or less) tax on sales to registered dealers and manufacturers.[324]

In levying a tax on inter-state sales to registered dealers a balance must be drawn between providing some revenue for the exporting States on the one hand, and inhibiting the free movement of goods and encouraging the setting up of branches to avoid the tax on the other hand. Obviously the rate one thinks appropriate depends on the relative importance one attaches to these opposing considerations.

E. Taxation in the Exporting State Prior to Inter-State Sale

The States have adopted different policies in regard to taxation of the intra-state sale of a commodity preceding its inter-state sale. In Delhi, Punjab and West Bengal, a commodity ultimately sold in inter-state commerce will not bear any State sales tax even though intra-state sale of the commodity has taken place before inter-state sale. These States have a retail single point tax. Thus, so long as a sale is made to a registered dealer for resale by him either in intra-state or inter-state commerce, it is not taxed.

In Bihar, a commodity ultimately sold in inter-state commerce, will be exempted only from the single point sales tax on any prior intra-state sale (the multi-point sales tax will be levied on any intra-state sales).

In Gujarat and Maharashtra no state sales tax is levied on a commodity, if it is bought by a local dealer for purpose of inter-state sale. In these States, the commodity would bear the first point sales tax if more than one intra-state sale has taken place. However, this would be unusual, as a commodity sold in inter-state commerce is not likely to have more than one intra-state sale.

Both Kerala and Uttar Pradesh allow a rebate of half the tax levied on a number of commodities ultimately sold in inter-state commerce.[325] In the remaining States, intra-state sales of commodities ultimately sold inter-state are subject to sales tax within the State. The extent of the tax paid in these States will depend on the rate of tax and the kind of sales tax system in the State and on the number of intra-state sales. In these States there is a strong incentive not to make intra-state sales preceding inter-state sales.

Wherever possible it would be desirable to adopt a policy of not taxing intra-state sales (to registered dealers) which precede inter-state sales. This can be accomplished in a number of different ways. In

States like Delhi, Punjab and West Bengal which levy a retail single point tax there is no need to make specific exemptions of intra-state sales between registered dealers preceding inter-state sale because such sales are not taxed at all. However, in States levying multi-point sales taxes or single point sales taxes at the first point, it is necessary either to exempt from tax intra-state purchases by a dealer for sale in inter-state commerce (as is done in Gujarat and Maharashtra) or to provide rebates of the tax paid on intra-state sales when the inter-state sale takes place.

A number of States provide for the exemption of sales taxes on raw materials purchased by manufacturers in such a way as to discriminate against inter-state commerce. Assam, Rajasthan and West Bengal—all exempt from sales tax the purchase of raw materials by a manufacturer if the finished product is sold within the State, but not when it is sold outside the State.

In support of this provision it can be argued that the finished product sold within the State will be ultimately subject to the local sales tax, while if it is sold in inter-state commerce directly by the manufacturer it will not bear the local tax. Thus such a provision enables a State to get revenue from locally manufactured goods sold outside the State, while at the same time avoiding 'double taxation' of the locally manufactured commodity. However, to levy the sales tax on raw materials only if the finished product is exported outside the State, results in discrimination against inter-state commerce. When the finished product is sold intra-state it will bear sales tax at only one point, but when it is sold inter-state there will first be a tax on the raw materials, then a Central sales tax of a minimum of 10 per cent when the finished product is sold either to an unregistered dealer or to a consumer, or Central sales tax of 3 per cent when it is sold to a registered dealer, and a further tax in the importing State on the sale by the registered dealer.

It will be argued later that there is a good case for

exempting raw materials from taxation. However, if it is deemed desirable to tax; raw materials, they should be taxed irrespective of whether the finished product is sold within the State or outside the State.

This writer in his discussions with various State Sales Tax Commissioners has observed that two opposing notions are held in regard to the intra-state taxation of products destined for inter-state sale. Some States are primarily concerned with the competitive position of their manufacturers and distributors.[326] Thus, in Delhi intra-state sales to registered dealers are not taxed. Under its single point retail sales tax, a sale is taxed only when it is made to a consumer or non-registered dealer within the territory of Delhi. Hence, if a sale is made to a registered dealer and the dealer resells the goods in inter-state commerce, there is no local sales tax on the commodity. Delhi's concern with the competitive position of its manufacturers is also evidenced by the fact that all raw materials purchased by manufacturers are exempt from sales taxation as well.[327] Both the exemption of intra-state sales to registered dealers, and the exemption from sales tax on manufacturers' purchases of raw materials, result in the commodities produced by Delhi manufacturers being offered at cheaper prices in other States, than would otherwise be the case.

Most States, on the other hand, are primarily concerned with deriving revenue from their exports to other States. They seem to feel that in so far as it is possible it is desirable to place as much of the burden of their sales taxes on consumers in other States. Hence, these States find it desirable to tax the intra-state sales of commodities between registered dealers even if the commodities are eventually sold inter-state. It is not surprising that the same States which tax intra-state sales between registered dealers also are the States which levy sales taxes on the sale of raw materials purchased by manufacturers. Orissa also levies a purchase tax at the point of last purchase within the

State on a number of its agricultural products which are sold largely to other States.

It appears that those States in which manufacturing is most important, such as Delhi, Gujarat, Maharashtra and West Bengal, are the States which do not tax intra-state sales to registered dealers preceding inter-state sale. On the other hand, the States which tax such sales tend to be States where agricultural production is more important and manufacturing is relatively unimportant. Thus, in these States there appears to be very little concern with the competitive position of their products in other States.

F. Sales Tax Discrimination in Favour of Locally Produced Goods

Uttar Pradesh has a unique provision in its Sales Tax Act which enables the Government to provide what amounts to a form of tariff protection to certain of its manufactures. Section 4A of the Act[328] reads as follows:

> (1) Where the State Government is of the opinion that it is necessary to do so for increasing production of any goods, it may by notification in the Official Gazette declare that the turnover in respect of such goods by the manufacturer thereof shall, during such period, not being less than three years but not exceeding five years, as may be specified, be exempt from sales tax or be liable to such tax at such reduced rate as it may be.

Part (2) of Section 4A states that the above exemption may be granted either to all goods manufactured subsequent to the date of notification or only such goods manufactured in a factory erected and established after the said date. The purpose of this provision is to encourage the growth of industries in Uttar Pradesh.[329]

While there is nothing unusual about the granting of exemptions or reduced rates for certain products, this provision is unique, in that it appears to enable discrimination between locally manufactured articles and similar articles imported from outside the State. In effect then it can be used in relation to other States in a way similar to the use of a tariff in relation to other countries. This provision would appear to be in violation of Article 304(a) of the Constitution which states that:

> the legislature of a State may by law—(a) impose on goods imported from other States or the Union territories any tax to which similar goods manufactured or produced in the State are subject, so, however, as not to discriminate between goods so imported and goods so manufactured or produced.

However, the justification for this provision appears to be that a discrimination between a locally manufactured article and a similar article imported from outside the State can be regarded as reasonable, without offending against the provision of Article 304 of the Constitution, provided it is limited to a specified period.[330] Irrespective of the Constitutional validity of this type of provision, such discrimination is undesirable and should be done away with. Moreover, sales tax exemptions or concessions are not a desirable means of encouraging a particular industry or manufacturer.

G. Sales Taxation of Exports

It is maintained that since many foreign countries give a full rebate of sales tax on exported goods, Indian exports will be placed at a comparative disadvantage if they are not also exempted from sales tax. While in principle it does seem desirable to eliminate the

burden of sales taxes on exports, in practice it is extremely difficult to ascertain just what the total sales tax burden is on a particular export item and to specify the manner in which such relief should be given. In India the above problems are compounded by the fact that the power to levy sales taxes is given to the States and that there is very little uniformity among the various States' sales tax laws.

During the Third Plan foreign exchange became a serious problem for the Indian Government. By the start of the Third Plan foreign exchange reserves had fallen almost to the minimum that was permissible under the law and there was little possibility of drawing them down further. Faced with this situation, the Government took a number of measures to promote exports, including the following: allocation of scarce raw materials to exporters, financial facilities for undertaking marketing research, publicity, relaxation of export restrictions, removal or reduction of export duties, refund of export duties, and finally, devaluation of the rupee. While a full discussion of India's export problem, cannot be undertaken here, in light of the great current importance of this problem it would not be out of place to discuss what modifications of sales taxes would provide a desirable stimulus to exports.

In 1962, the Government appointed a Committee to look into the problem of promoting the country's exports. The Mudaliar Committee pointed out that sales taxes were a burden on the cost of export items, and that this burden should be eliminated. However, it realized that this was not an easy matter, and concluded as follows:

> In order to cut through the vicious tangles of the vexed question which has been debated for nearly a decade, we would suggest that:
>
> (a) the Central Government assume the responsibility for remission of sales tax entering into export costs. They may either recover the due amount from the State Governments, or

make such financial readjustments with the State Governments, as they deem appropriate;

(b) again, there should be a simple and uniform method of giving the remission. We do not know exactly what the average incidence of sales tax on export cost is. But assuming that it is of the order of 2 per cent on the average, a uniform rebate of 2 per cent could be generally given.[331]

In 1963, the Government appointed another Committee[332] to look more specifically at the problem of sales tax burden on exports. This section will be concerned largely with the recommendations of this Committee.[333]

Article 286 of the Constitution restricts the power of the States to levy any sales tax on sales or purchases 'in the course of export' from the territory of India. Section 5(1) of the Central Sales Tax Act, 1956 gives the following definition of sales and purchases in the course of export:

> A sale or purchase of goods shall be deemed to take place in the course of export of goods out of the territroy of India only if the sale or purchase either occasions such export or is effected by a transfer of documents of title to the goods after the goods have crossed the customs frontiers of India.

Thus, goods which are exported escape sales taxation only on the last sale which actually occasions the export. This means that unless the State authorities provide exemptions, that all raw materials that go into the exported commodity are taxed and that the exported commodity itself is taxed on any sale which does not occasion export of the product. Hence, goods purchased from manufacturers by Exporting Houses and then exported by them are subject to sales tax when purchased.

It is hard to deny that one of the most appropriate means of encouraging exports would be to remove the entire burden of sales tax on exports. Unfortunately, there is considerable difficulty in ascertaining the

burden of sales tax borne by exported goods. It is useful to break this problem into two parts. First there is the problem of ascertaining the sales tax borne on the goods which are actually exported whether as raw materials, as semi-manufactured goods or as manufactured goods. Secondly, there is the much more difficult problem of calculating the sales tax paid on the purchase of raw materials, fuel, lubricants, machinery, and other goods used in the manufacture of finished or semi-finished goods, which are eventually exported. The first tax burden will be called the 'direct' burden, while the latter will be called the 'indirect' burden.[334] The variation of types and rates of sales taxation among the various States of India compounds the difficulty of both parts of the problem. While the direct sales tax burden can be easily ascertained where the tax is leviable at a single point, it is difficult to assess it precisely in a multi-point system when the goods have passed through several stages before export, especially when the number of such stages varies from consignment to consignment.

In West Bengal all transactions which take place through a chain of registered dealers, resulting in the final export, are free from sales taxation. In Maharashtra and Gujarat, two sales prior to the sale in the actual course of export are exempted. While in Madhya Pradesh, Uttar Pradesh, Punjab and Rajasthan there are grants of rebates or exemptions of sales tax (on some specified goods) on the sale preceding the one resulting in export of the goods.[335]

The Saraiya Committee stressed the necessity of giving relief in respect of the tax burden on at least two sales prior to the sale in the course of export, either by way of exemption or by way of rebate of the tax leviable on such sales.[336] This would have the desirable effect of eliminating the direct burden of the sales tax on purchases made by exporters from manufacturers and on sales from one exporter to another.

It is much more difficult to find a satisfactory way

of removing the sales tax burden from the raw materials that go into the production of manufactured goods which are exported.

However, the Saraiya Committee felt that:

> There should be no practical difficulty in the way of the manufacturer showing from his accounts the total amount of such tax borne on his purchases by him during a particular year. The manufacturer would also have ready data regarding the total value of goods produced by him as also the total value of that proportion of his production which has been exported either directly by him or through other exporters. If these data are furnished by the manufacturer to the assessing authorities of his home State, on the basis of these data it should be possible for that State to grant a refund or rebate bearing the same proportion of the total tax paid by the manufacturer on purchases of raw materials, components, etc. as the quantity of goods exported from his production bears to the total quantity of his production during the same year.[337]

This solution may be satisfactory where the manufacturer produces a single product. However, where the manufacturer produces many products, the solution is far from satisfactory. While it might still be possible to ascertain the total amount of sales tax paid by the manufacturer on his purchase of raw materials and also the proportion of his product which is exported (and even the proportion of each of his products that is exported), it would be very difficult to ascertain what proportion of the raw materials were used in the production of which products.

To merely take the proportion of the total of his production that is exported as the basis for his exemption from sales taxation on his purchased raw materials may not even come close to approximating the sales taxation paid on purchase of raw materials which are actually used in the goods he exports. Raw materials are likely to be used in different proportions for different products and the per cent of the different products exported is likely to vary. Thus calculations on the basis of totals, which are very heterogeneous, may be very inaccurate.

The Saraiya Committee realized that some imponderables would still remain and that it would be hard to develop a suitable system for exemption or refund on raw materials which have been purchased out of State and were subjected to the Central sales tax.[338]

The Committee therefore recommended that an *ad hoc* relief calculated at 1 per cent of f.o.b. value in the case of manufactured and processed goods and 1/2 per cent in the case of other goods, may be granted to the actual exporter in respect of the goods exported by him in each year, by the Central Government.[339]

The Saraiya Committee also realized that it might not be reasonable to expect those States which export a relatively large percentage of their production and which collect a relatively large percentage of their sales tax revenue from exports (and the raw materials going into the manufacture of exported goods) to adopt the Committee's suggestions relating to sales tax concessions for exports. It, therefore, recommended:

> That adequate compensation should be given by the Centre to States where our recommendations lead to loss of revenue which is not insignificant. The loss to be made good should be calculated on the basis of present rates of tax and only in respect of commodities which are being taxed at present so that there is no inducement to the States to raise the rates or widen the list of taxed commodities only in order to qualify for a larger amount of compensation.........To the extent that there is an increase in the volume of exports, the compensation should be suitably raised on the basis of the present rates.[340]

This recommendation is very unjust. In attempting to prevent future exploitation of the Centre by certain States, it results in benefiting those States which are presently taxing exports most heavily and which are therefore presently acting against what is considered the national interest.

Thus we have the very thorny problem of relieving the sales tax burden on exports while maintaining equity between the States. For the Centre not to give compensation for what the States are being asked to

give up in the national interest may seem unjust, but for those States which are presently acting most in the national interest (by granting the most concessions of sales tax to exported goods) to receive the least benefit from Central compensation, not only immediately, but in the future as well, seems equally unjust. It appears that one cost of the federal form of government is that no satisfactory solution can be achieved with regard to relief of sales tax burden on exported products while maintaining equity between the States.

Actually, there is a possible solution to this dilemma. If it is desirable on other grounds to exempt raw materials from sales taxation altogether,[341] then to the extent that this is feasible, it is possible to avoid the problem of having to compensate for the sales taxation of raw materials going into exported products.

In regard to the sales tax burden on finished products, which are involved in transactions prior to their actual export, the Saraiya Commission's recommendation is satisfactory, but the recommendation might have to be made in the form of an appropriate Constitutional Amendment if the States are unwilling to accept it. Moreover, Central compensation for such acceptance on the part of the States would be undesirable since some States are already acting in accordance with this suggestion. Since, in practice it is not possible to completely exempt raw materials from taxation, it would probably still be appropriate for the Central Government to provide *ad hoc* relief (calculated at 1 per cent of the f.o.b. value in the case of manufactured and processed goods) to the actual exporter.[342]

Before concluding this section it should be mentioned that the provision of *ad hoc* relief involves possible dangers from an international point of view. While at present, it does not seem to be contravened by the GATT Rules, it holds open the possibility of competitive export promotion by some or all countries. In the name of providing relief for domestic sales taxation incurred, a country may undertake to provide a compe-

titive advantage for its exports in the international market. Since the actual burden of sales taxation on exported products is extremely difficult to ascertain, it would be hard for one country to determine whether another country's level of *ad hoc* relief of domestic sales taxation was justified. But, if such relief is put at the 1 per cent level recommended, competitive retaliation is not likely to be elicited.

3. Sales Tax Systems in India

A. Sales Tax Revenue

In 1951-2 the first year of the First Five-Year Plan sales tax yielded Rs. 58.9 crores revenue, which was about 25.8 per cent of the total State tax revenue.[343] The next year there was a slight decline in sales tax revenue, but since 1952-3 there has been a substantial and continuous increase in sales tax revenue. In the last fifteen years there has been a more than eight-fold increase in sales tax revenue. During the same period, the other State taxes registered a less than three-fold increase in revenue.[344] According to the budget estimates for 1968-9, sales tax revenue will be Rs. 560.8 crores and will account for 47.9 per cent of all State tax revenue.[345] Thus, sales tax revenue now accounts for almost as much revenue as all other State taxes combined. Hence its importance in the State tax systems is comparable to the importance of Union excise duties in the Union tax system.

It is also interesting to look at the growth of sales tax revenue relative to the growth in national income, as this gives a somewhat better indication of the real growth of sales tax revenue. In 1950-51 sales tax revenue was 0.6 per cent of national income. Sales tax revenue as a percentage of national income has increased steadily during the whole period since 1950-51.[346] In 1960-61 sales tax revenue was 1.2 per cent of national income; and in 1966-7 sales tax revenue was 1.8 per cent of national income. Since the total State tax revenue as a percentage of national income increased from 2.3 per cent to 3.8 per cent between 1950-51 and 1966-7 the sales tax accounted for 80 per

cent of the total increase in State tax revenue as a percentage of national income during this period.[347]

There is considerable variation in the relative importance of sales tax revenue in the various States. In five States sales tax revenue accounts for more than 50 per cent of all State tax revenues: Orissa (52.9); Madras (53.1); West Bengal (53.4); Maharashtra (58.6); and Gujarat (58.7). In the following seven States sales tax revenue accounts for more than 40 per cent of all State tax revenue: Rajasthan (40.1); Bihar (40.3); Haryana (40.4); Madhya Pradesh (45.0); Kerala (45.8); Mysore (47.3); and Andhra Pradesh (48.7). In the following three States sales tax revenue accounts for more than thirty per cent of all State tax revenue: Uttar Pradesh (32.8); Punjab (34.9); and Assam (37.4). In the remaining State of Jammu and Kashmir sales tax revenue is only 24.4 per cent of total State tax revenue.[348]

A glance at Table 7 reveals that there is considerable variation among the States in terms of per capita sales tax revenue. The average sales tax revenue per capita for all of the States in 1966-7 was Rs. 10.25. The three States with the lowest per capita sales tax revenue were Jammu and Kashmir (Rs. 3.03), Uttar Pradesh (Rs. 4.54) and Bihar (Rs. 5.73). On the other hand the States with the highest per capita sales tax revenue were Madras (Rs. 14.47); Gujarat (Rs. 17.06) and Maharashtra (Rs. 22.09). It is useful to attempt to ascertain what factors seem to determine whether a State collects a relatively small or relatively large amount of sales tax revenue per capita.

In order to obtain some information on what factors seem to be associated with relatively high or low sales tax revenue per capita in the various States the author undertook a correlation analysis between sales tax revenue per capita and the following factors:

(1) State income per capita
(2) Percentage of urban population in the total population of the State
(3) Percentage of State income *not* derived from

TABLE 7

STATE SALES TAX REVENUE PER CAPITA 1966-7

State	*Population 1961 census*	*Sales Tax Revenue 1966-7 (1)*	*Sales Tax Revenue per capita (2)*
	(in millions)	(Rs. crores)	
Andhra Pradesh	36.0	30.09	8.36
Assam	11.9	8.39	7.05
Bihar	46.5	26.65	5.73
Gujarat	20.6	35.14	17.06
Jammu & Kashmir	3.6	1.05	3.03
Kerala	16.9	22.78	13.48
Madhya Pradesh	32.4	23.53	7.26
Madras	33.7	48.77	14.47
Maharashtra	39.6	87.47	22.09
Mysore	23.5	26.43	11.25
Orissa	17.5	10.97	6.27
Punjab (Haryana & Punjab)	20.3	23.37	11.51
Rajasthan	20.2	15.91	7.88
Uttar Pradesh	73.7	33.45	4.54
West Bengal	34.9	48.65	13.94
All States	431.7	442.50	10.25

Source: (1) *Report of the Finance Commission 1965* (Government of India Press, New Delhi, 1965), p. 165

(2) *Reserve Bank of India Bulletin,* Vol. 22 (May, 1968) pp.586-93

Note: (1) Includes general sales tax, Central sales tax and sales tax on motor spirit

(2) Since the population figures are based on the 1961 census and the sales tax revenue figures are for 1966-7, the figures for sales tax revenue per capita should be regarded as slight over-estimates of the sales tax revenue per capita in 1966-7.

TABLE 8 : COMPARISON OF STATES' SALES TAX REVENUE PER CAPITA WITH OTHER STATE CHARACTERISTICS

States	Sales Tax Revenue per capita 1966-67 (Rs.)	Urban Population as percentage of State's population (1960-61)	Percentage of Income not derived from Agriculture, Animal Husbandry, Forestry, or Fishing (1960-61)	State Income per capita (1960-61) (Rs.)	Rank of State according to Sales Tax Revenue per capita (2)	Rank of State according to Urban population as percentage of State's population (2)	Rank of State according to percentage of income not derived from Agriculture, Animal Husbandry, Forestry, or Fishing (2)	Rank of State according to per capita income (2)
	1	2	3	4	5	6	7	8
1. Jammu and Kashmir	3.03	16.66	36.0	289.02	15	8	13	10
2. Uttar Pradesh	4.54	12.85	31.8	297.35	14	12	15	9
3. Bihar	5.73	8.43	43.4	220.69	13	13	8	15
4. Orissa	6.27	6.32	31.9	276.22	12	15	14	13
5. Assam	7.05	7.69	41.7	333.34	11	14	10	6
6. Madhya Pradesh	7.26	14.29	40.6	285.35	10	11	11	12

7.	Rajasthan	7.88	16.28	36.6	267.43	9	9	12	14
8.	Andhra Pradesh	8.36	17.45	43.0	287.01	8	7	9	11
9.	Mysore	11.25	22.33	43.5	304.71	7	5	7	8
10.	Punjab	11.51	20.13	44.7	451.31	6	6	6	3
11.	Kerala	13.48	15.11	45.1	314.86	5	10	5	7
12.	West Bengal	13.94	24.45	62.8	464.62	4	4	2	2
13.	Madras	14.47	26.69	54.5	334.09	3	2	4	5
14.	Gujarat	17.06	25.76	55.1	393.39	2	3	3	4
15.	Maharashtra	22.09	28.22	64.8	468.54	1	1	1	1
	All States	10.25	17.64	48.0	334 54		(5—6)	(5—7)	(5—8)
	(Coefficient of correlation) (1)						.8008	.8851	.7533

Sources: (1) National Council of Applied Economic Research, *Distribution of National Income By States* 1960-61, (National Council of Applied Economic Research, New Delhi, 1965). Table 3, p. 9, Table 4, p. 10. Tables 8-23, pp. 96-111.

(2) Table 8.

Note: (1) All 3 correlations are highly significant (at the .1 per cent level). See Appendix Tables A—18-20.

Agriculture, Animal Husbandry, Forestry or Fishing.[349]

The correlation coefficient between sales tax revenue per capita and State income per capita was found to be .7355; the correlation between sales tax revenue per capita and percentage of urban population in the total population of the State was found to be .8008; while the correlation between sales tax revenue per capita and percentage of State income not derived from Agriculture, Animal Husbandry, Forestry or Fishing was found to be .8851.[350]

Thus, it appears that while the level of per capita sales tax revenue is quite closely associated with State income per capita, and that it is even more closely associated with the degree of urbanization in the State and the percentage of income derived from 'non-agricultural' occupations. The States with relatively high levels of per capita income, urbanization, and 'non-agricultural' income tend to have the highest sales tax revenue per capita. This tends to support the author's earlier observations that sales taxation tends to be levied primarily on the urban sector.

B. Description of Sales Tax Systems

Almost all of the writers on sales taxation in India divide the multitudinous forms of sales tax systems in India into two main varieties: the multi-point and the single point. There is also the double point tax, which is usually regarded as a sub-variety of the single point system.[351] However, in many States there is a combination of single point and multi-point sales taxes. Table 9 shows the different forms of sales taxation in existence in the various States in 1967. Delhi, Jammu and

TABLE 9

MAJOR CHARACTERISTICS OF THE INDIAN SALES TAX SYSTEMS

	Taxable Turnover Limits (Rs.)		*Stage of Tax*	*Rates of Tax (in percentages)*
Andhra Pradesh	E	10,000	M	3
			S(FP)	½—10
Assam	E	12,000	S(FP)	2—10
			S(LP)	General rate 5
Bihar	E	15,000	M	1—2
			S(W)	3—10
Gujarat	I & M	20,000	S(LP)	¼
	E	30,000	S(FP)	2—12
			S(W)	¼—3
			S(FP & W)	¼—10 & ¼—3
Jammu & Kashmir	E	10,000	S(FP)*	1—10
			S(LP)	General rate 7
Kerala	E	10,000	M	3
			S(FP)	1—12
Madhya Pradesh	I & M	5,000	S(FP)*	½—11
	C	25,000	S(LP)	
	E	15,000		
Madras	E	10,000	M	1—3
			S(FP)	1—12
Maharashtra	I & M	10,000	same as Gujarat	
Mysore	E	10,000	M	½—3
			S(FP)	1—11
Orissa	E	10,000	S(LP)*	1—7
			S(FP)	10
Punjab	I	—	S(LP)*	½—10
	M	10,000	S(FP)	
	E	40,000		
Rajasthan	I & M	5,000	S(LP)	1—10
	C	25,000	S(FP)*	
	E	15,000		
Uttar Pradesh	E	12,000	M	½—3
			S(FP)	1—10
			S(LP)	1—10
West Bengal	I & M	10,000	S(LP)*	½—10
	E	50,000	S(FP)	
Delhi	I & M	10,000	S(LP)*	½—10
	E	30,000	S(FP)	

Sources: (1) K.R. Chaturvedi, *The Principles of Sales Tax Laws*, Fourth Revised Edition, (Eastern Law House Private, Ltd., Calcutta, 1967), pp. 225-44, 1056-1248.

(2) Government of Gujarat, *Report of the Sales Tax Inquiry Committee 1967 (Gujarat)*, (Government Press, Baroda, 1968), pp. 256-7.

Notes: (1) The letters under taxable turnover limits have the following meanings:

I = Importer
M = Manufacturer
C = Co-operative Society
E = Every dealer (or every other dealer).

(2) The abbreviations under stage of tax have the following meanings:

M = Multi-point sales tax.
S(FP) = First point sales tax (on manufacturer or importer)
S(W) = Last sale by a registered dealer (primarily a wholesale sales tax)
S(LP) = Last point sales tax (on retailer).
* = indicates that the sales tax is levied primarily at this stage.

Kashmir, Orissa, Punjab and West Bengal, have a single point tax on the last sale (retail) in the series of sales. Assam also has a single point levy at the last point of sale; however it also taxes a considerable number of items at the first point of sale. The States of Madhya Pradesh and Rajasthan have a single point sales tax levied primarily on the first sale by a manufacturer or an importer. Maharashtra and Gujarat have what is generally, and somewhat mistakenly, called a double point system. In these two States a tax is levied on three stages:

(1) the manufacturer, producer or importer (first stage);
(2) on the last wholesale or semi-wholesale stage (last sale by a registered dealer); and
(3) at the retail stage.

Madras, Mysore and Uttar Pradesh have what are primarily multi-point sales taxes, although in each State a large number of commodities are also taxed at a single point (mostly, at the first point of sale). Andhra

Pradesh has, depending on the commodity, a multiple point tax, a single point tax on the first sale, or a multiple point tax along with an additional single point tax on the first sale. Bihar levies a multi-point tax as well as a single point tax on last sale by a registered dealer, and for some commodities both the multi-point and the single point taxes apply. Kerala has primarily a multi-point system, with a single point tax on some commodities at the first point of sale. In respect of a few commodities there is a multi-point tax along with a special single point tax. In addition to their sales taxes the following States also levy a purchase tax (at the first or last point) on some commodities: Andhra Pradesh, Bihar, Gujarat, Kerala, Madhya Pradesh, Madras, Mysore, Orissa and Uttar Pradesh.

It is frequently stated that in India there is a tendency for the single point sales tax to be adopted by urban States which have a high level of industrial, manufacturing and trade activities, while the multi-point sales taxes are generally utilized in predominantly rural States.[352] Such a generalization is incorrect. In fact there seems to be no correlation whatsover between whether a State levies a multi-point sales tax and whether it is predominantly rural. If the fifteen States are ranked according to the urban population as a percentage of the State's total population, (with the most urban state ranked 1 and the least urban state ranked 15) the States levying a multi-point sales tax rank as follows:

Madras	2
Mysore	5
Andhra Pradesh	7
Kerala	10
Uttar Pradesh	12
Bihar	13

These figures seem to indicate that there is no tendency for the States levying multi-point sales taxes to be predominantly rural. But neither is there any tendency for them to be predominantly urban. Bihar

and Uttar Pradesh are relatively rural States, Kerala and Andhra Pradesh are about average in terms of the extent of their rural population, while Mysore and Madras are relatively urban States. The two States with the lowest percentage of urban population, Orissa and Assam, levy single point sales taxes.

In order to facilitate later discussion a brief description of the main characteristics of the sales tax system of each State is given below:[353]

Andhra Pradesh

The sales tax in Andhra Pradesh is levied under the Andhra Pradesh General Sales Tax Act, 1957. Andhra Pradesh has a basic multi-point levy at the rate of 3 per cent at every point of sale. However, a number of goods which are listed in three separate schedules are taxed only at a single point. The single point sales tax is generally levied at the first point of sale, although for a couple of items (such as rice) it is levied on the first sale by a wholesale dealer. The single point tax is levied at rates ranging from $\frac{1}{2}$ to 10 per cent. The taxable turnover in goods other than declared goods is also subject to an additional tax at 1/4 per cent for dealers whose total turnover for the year is Rs. 3 lakhs or more.

There is also a small list of nine commodities on which only a single point purchase tax is levied, either at the point of first purchase or at the point of last purchase, by a dealer in the Sate. The purchase tax is levied at rates ranging from two to five per cent.

Where the multi-point sales tax is levied, the minimum turnover limit is Rs. 10,000. However, in cases where only a single point sale or purchase tax is levied there is no minimum turnover limit and the tax is levied irrespective of the turnover.

Andhra Pradesh does not provide for any concession or remission of tax on sales of raw materials to a

manufacturer or on sales of finished products to an exporter who purchases such products for export out of India. Intra-state sales between registered dealers preceding inter-state sale are subject to sales taxation.

ASSAM

There are two sales tax statutes in effect in Assam. One is the Assam Sales Tax Act, 1947, and the other is the Assam Finance (Sales Tax) Act, 1956. The first Act covers all commodities except those which the Government has notified will come under the second Act. Under the 1947 Act a single point levy at the last point of sale is levied. The general rate of tax is 5 per cent. A large number of goods are taxed under the second Act at the first point of sale. The rates of tax at the first point of sale vary from 2 per cent to 10 per cent, with most goods being taxed at rates of 5, 7 or 10 per cent.

The annual turnover limit for liability to tax is Rs. 12,000 for every dealer. However, a dealer registered under the Central Sales Tax Act is liable to pay the tax irrespective of the quantum of his turnover.

Sales of goods to a manufacturer or producer registered under the Act are exempted from tax if the goods purchased are used in the manufacture of taxable goods which are sold within the State. Assam does not provide for any concession on sales of goods to an exporter who purchases such goods for export from India.

BIHAR

The Bihar Sales Tax Act, 1959, provides for the levy of sales tax on a multi-point-cum-single-point basis. Bihar levies either a multi-point tax along with a special single point tax, usually levied at the last point of sale by a registered dealer, or only multi-point or single

point tax on certain specified commodities. There is a multi-point tax (called the general tax) generally at the rate of 1 per cent (and not exceeding 2 per cent) on every sale, and in addition a single point tax (called the special tax) generally levied at the last point where goods leave the sector of registered dealers at rates varying between 3 and 10 per cent (most commonly at 4 per cent). There is a long list of about fifty commodities on which only a single point tax is imposed generally, at a rate of 7 or 10 per cent. The only commodity which bears the multi-point tax but not the single point tax is mica. There is also a purchase tax levied on four commodities at the point of purchase made from a person other than a registered dealer. The purchase tax is levied either at a rate of 2 per cent or at a rate of 5 per cent.

The minimum turnover limit fixed for the levy of the multi-point and single point sales tax and the purchase tax is Rs. 15,000 for every dealer. A dealer registered under the Central Sales Tax Act and purchasing goods at the concessional rate in inter-state commerce has to pay the tax on the sale of such goods irrespective of his turnover.

Purchases made by a registered manufacturer or producer for use directly in the process of manufacturing goods are subject to concessional rates of between 1 and 3 per cent.

A commodity ultimately sold in the course of inter-state trade or commerce or export out of the territory of India does not bear the local single point tax. However, no concession is allowed by the State Government under the Central Sales Tax Act on inter-state sales preceding the export transaction.

GUJARAT AND MAHARASHTRA

The Bombay Sales Tax Act, 1959, was adopted by both Gujarat and Maharashtra after they were bifur-

cated from the former State of Bombay. Separate amendments to the original Act have been made in Gujarat and Maharashtra, which have made for slight differences in the systems prevailing in the two States—but the basic structure of sales taxation in the two States remains the same. Depending on the commodity, these States levy (1) a single point tax imposed on the first sale; or (2) a single point tax imposed on the last sale by a registered dealer; or (3) a double point tax imposed on the first sale and on the last sale, by a registered dealer. The single point sales tax levied at the first point is referred to as the 'sales tax', and is levied on a large number of items specified in about 70 Entries to Schedule C of the Act. This tax is levied at rates varying from 2 per cent to a high of 45 per cent on liquor. The last stage single point sales tax (called the 'general sales tax') is levied on a much smaller number of items contained in about 10 Entries to Schedule D of the Act at rates ranging from 2 per cent to 6 per cent.[354] A double point sales tax (both the 'sales tax' and the 'general sales tax') is levied on a number of commodities specified in Schedule E of the Act, with the rates at the first point ranging from $\frac{1}{4}$ per cent to 10 per cent, and the rates at the last point ranging from $\frac{1}{4}$ per cent to 3 per cent (in most instances it is 3 per cent). Goods not specified in any of the schedules are subject to the double point tax at a rate of 3 per cent at the first point and 2 per cent at the last point. In addition a retailer pays a retail sales tax at the rate of $\frac{1}{4}$ per cent on his turnover of all the goods subject to either the 'sales tax' or the 'general sales tax'.

The minimum turnover required for the imposition of tax is Rs. 10,000 in the case of an importer or manufacturer,[355] and Rs. 30,000 for every other dealer. However, a dealer registered under the Central Sales Tax Act is liable to pay tax on sale of goods purchased in inter-state commerce at a concessional rate irrespective of his turnover.

Both States provide some concessions for purchases of raw materials by a manufacturer. In Maharashtra, all manufacturers who obtain a recognition certificate are entitled to purchase their requirements for use in the manufacture of taxable goods at a concessional rate of 2 per cent on all articles taxed at a higher rate. In Gujarat, goods purchased by a manufacturer for manufacture and sale are exempt from sales tax, except for declared goods, and goods mentioned in Entries 1 to 11 and 15 in Schedule C of the Act, Entries 1 to 4 in Schedule D, and Entries 1 to 2 in Schedule E (all these goods are taxed at rates of 3 per cent or less). Goods purchased by a registered dealer for sale in the course of inter-state trade and commerce are exempt from the State sales taxes in both States. In respect of purchase of machinery and spare parts and of most goods taxable at the rate of 3 per cent or less no concession is available in these two States under the Central Sales Tax Act in respect of inter-state sales made to exporters in other States.

Jammu and Kashmir

The Jammu and Kashmir General Sales Tax Act, 1962, imposes a single point sales tax at rates ranging from 1 per cent to 10 per cent (the general rate of tax is 7 per cent). The tax is generally levied either on the importer on his first sale within the State, or on the retailer.

All importers are required to pay tax irrespective of their turnovers. The turnover limit for every other dealer is Rs. 10,000.

No concession from the sales tax is allowed on sales of raw materials to manufacturers or on sales of finished products to exporters, who export such products out of India.

KERALA

The Kerala General Sales Tax Act, 1963, levies three types of sales taxes. The basic sales tax in Kerala is a multi-point sales tax levied at the rate of 3 per cent. Certain specified goods are subject to single point sales tax at the first point of sale, at rates ranging from 1 to 12 per cent.[356] Three items are subject to single point tax at higher rates, namely, liquor (50 per cent), motor spirit other than petrol (20 per cent), and petrol (15 per cent). About 15 items are subject to purchase tax at the point of last purchase in the State by a dealer who is liable to tax. The purchase tax is levied at rates ranging from 1 to 5 per cent.

The turnover limit for imposition of sales tax is Rs. 20,000 for dealers in cooked food, and Rs. 10,000 for every other dealer. Dealers may elect to pay tax at the compounded rate of one per cent if taxable turnover is less than Rs. 15,000, and at one and one half per cent if taxable turnover is not more than Rs. 25,000.[357] Sales of certain 'non-declared' goods, subject to tax at a single point under the Act, to a manufacturer in the State, are taxable at a concessional rate of 1 per cent if such goods are used as component parts of the goods manufactured for sale. No concession from sales tax is allowed on tansactions preceding the actual export of goods outside of India.

MADHYA PRADESH

The Madhya Pradesh General Sales Tax Act, 1958, provides for a single point tax, which is levied generally at the first point of sale. The rate of tax is 6 per cent on commodities not exempted and not otherwise specified in the schedules of the Act. The rate of tax on specified goods ranges from 1/2 per cent to 11 per cent[358] and is generally 7 per cent or 10 per cent on 'non-declared' goods. A purchase tax is

levied on all dealers who purchase taxable goods in circumstances in which sales tax is not payable on the sale price of such goods and either consume such goods in the manufacture of other goods for sale or otherwise dispose of such goods in any manner other than by way of sale of the goods in the State or in the course of interstate trade or commerce. The purchase tax is levied at the same rate at which the sales tax would have been leviable on such goods. The purchase tax is used solely as a means of checking evasion of sales tax and is not levied in place of sales tax. The only exception to this is a purchase tax on turmeric, which is levied at a rate of 5 per cent.

The turnover limit for imposition of the tax is Rs. 5,000 in the case of importers and manufacturers, Rs. 25,000 in the case of co-operative societies which deal exclusively in goods manufactured by the co-operative society, and Rs. 15,000 for every other dealer.

The tax on raw materials is fixed at 2 per cent[359] when purchased by a registered dealer for manufacture of goods for sale. The manufacturer may bear the ordinary sales taxes in cases where the tax is levied at the first stage and the raw material has passed through one or more sales before the manufacturer buys it. Since the tax is generally levied at the first point of sale, a commodity ultimately exported from the State will bear the State sales tax if any intra-state sale of the commodity has taken place before it is exported. However, the State Government grants a refund of local sales tax and exemption from Central sales tax on the local or inter-state sale immediately preceding the actual export from India of the following goods :[360]

1) Minerals
2) Shellac
3) Vegetable oils
4) Hides and skins
5) Oil cakes, and
6) Carpets.

MADRAS

The Madras General Sales Tax Act, 1959, provides for the levy of both sales and purchase taxes. Both multi-point and single point sales taxes are levied. The multi-point tax is levied generally at the rate of 3 per cent,[361] although in the case of a number of food items the rate is 1 per cent. There is a long list of commodities on which a single point tax is levied at the point of first sale. The rate of single point tax varies from 1 to 12 per cent. In addition, about ten items are subject to either first point or last point purchase tax at rates ranging from 1½ per cent to 3½ per cent.

The minimum turnover limit for taxation under the multi-point sales tax is Rs. 15,000 for all dealers, except for some dealers dealing exclusively in certain food products for whom it is Rs. 30,000.[362] However, the tax is levied irrespective of any minimum turnover in the case of the single point tax and in the case of casual dealers or dealers registered under the Central Sales Tax Act on goods purchased in inter-state commerce at a concessional rate.

There is no sales tax concession on purchases by manufacturers of raw materials subject to the multi-point sales tax. However, sales of 'non-declared' goods, which are subject to single point sales taxation, by a dealer to another dealer, for use by the latter as a component part of any other goods mentioned in the First Schedule, which he intends to manufacture inside the State for sale, are subject to tax at the concessional rate of 1½ per cent. This concession is available only for items which are identifiable in the finished product.

A commodity ultimately sold in inter-state trade and commerce bears the local tax if any intra-state sale takes place. Madras makes no concession on the sale to or purchase by exporters of goods, exported out of India by them.

Mysore

The Mysore Sales Tax Act, 1957, provides for a multi-point sales tax, a single point sales tax and a single point purchase tax. The multi-point tax is levied generally at rates of $1\frac{1}{2}$ per cent or 3 per cent.[303] A single point sales tax is levied at the first point on a large number of items. This single point tax is levied at 14 different rates ranging from 1 to 11 per cent. There are higher rates levied on narcotics ($12\frac{1}{2}$ per cent) and liquor (25 per cent). In addition, a number of goods are subject to first point or last point purchase tax at rates ranging from 1 per cent on hides and skins to 15 per cent on sugarcane.

The minimum turnover limit required for the imposition of sales tax is Rs. 10,000 for every dealer. However, a dealer registered under the Central Sales Tax Act is taxable irrespective of the quantum of his turnover.

No concession of sales tax or purchase tax is allowed on raw materials used in the manufacture of finished products or on goods purchased by exporters for export from India. Similarly, a commodity ultimately sold in inter-state trade and commerce will bear the local tax if any intra-state sale has taken place.

Orissa

The Orissa Sales Tax Act, 1947, provides for the levy of a single point tax at the point prescribed by the State Government. Usually, the tax is levied at the last point of sale. The general rate of tax is 5 per cent, but on specified commodities the rate ranges from 1 per cent to 7 per cent. Certain luxury goods are taxed at the rate of 10 per cent. The Act also provides for the levy of a single point purchase tax on some items at a rate ranging from 1 to 5 per cent. No sales tax is levied on these items that are subject to purchase tax.

The turnover limit for imposition of the tax is Rs. 10,000 for every dealer, except a dealer registered under the Central Sales Tax Act, who is liable to pay sales tax irrespective of his turnover.

No concession is allowed on sales of raw materials to manufacturers or on sales to exporters.

PUNJAB

The Punjab General Sales Tax Act, 1948, provides for the levy of a single point tax at the last point of sale.[364] The general rate of tax is 6 per cent. Some specified items are taxed at rates ranging between 1/2 per cent and 3 per cent, while luxury goods are taxed primarily at 10 per cent, although a few luxury items are taxed at 8 per cent. Tractors are subject to a specific tax of one hundred rupees per tractor.

The turnover limit for imposition of sales tax is Rs. 5,000 for importers, Rs. 10,000 for manufacturers, Rs. 25,000 for food establishments and Rs. 40,000 for every other dealer.

Sales to a manufacturer (registered under the Act) of raw materials used in the manufacture, in the State of Punjab of any goods for sale, are exempt from sales tax. A commodity ultimately exported from India does not bear the local sales tax. However, no concession is allowed under the Central Sales Tax Act on interstate sale preceding the actual export transaction.

RAJASTHAN

The Rajasthan Sales Tax Act, 1956, provides for the levy of a single point sales tax, generally at the point of first sale. The general rate of tax is 6 per cent; however, specified goods are taxed at rates ranging from 1 to 15 per cent. Under certain conditions in which a sales tax is not levied on a commodity, a single point

purchase tax is levied at the same rate as it would have been leviable on the sale price of such goods. In addition a purchase tax is levied on livestock at the rate of 5 per cent if the purchase takes place at a cattle-fair or if the purchase is the last purchase in the State preceding the export of the animals outside the State.

The turnover limit for imposition of the tax is Rs. 5,000 in the case of importers or manufacturers, Rs. 25,000 in the case of a cooperative society that deals exclusively in the goods manufactured by the cooperative society, and Rs. 15,000 for every other dealer.

Sales of raw materials (including fuel and lubricants) to manufacturers registered under the Act are taxable at the concessional rate of 1 per cent. Intra-state sales between registered dealers preceding inter-state sales, bear the local sales tax. Rajasthan also allows a concessional rate of 2 per cent on sales to or purchases by any exporter from a registered dealer of notified goods (which include gems, pearls and articles made of ivory).

Uttar Pradesh

The U.P. Sales Tax Act, 1948, provides for the levy of a multi-point sales tax, or a single point sales tax, or a single point purchase tax. The multi-point tax generally is levied at the rate of 3 per cent, but a few items are taxed at lower rates of ½ per cent, 1 per cent or 2 per cent. Numerous goods specified by the State Government are taxed only at a single point, usually the first point of sale. Nine different rates of tax are levied, ranging from 1 to 10 per cent. A few commodities are subject to a single point purchase tax at rates ranging between 1½ and 5 per cent.

The minimum turnover limit is Rs. 12,000 for every dealer, although it may be raised to Rs. 15,000 by notification of the State Government. Payment of a composition fee in lieu of sales tax is possible in certain circumstances, where the turnover does not exceed

Rs. 15,000. A dealer registered under the Central Sales Tax Act and purchasing commodities in inter-state commerce at a concessional rate is liable to pay tax on the sale of such commodities, irrespective of his turnover. Moreover, if a dealer is selling any imported goods and the goods are liable to single point tax, the dealer is required to pay tax on the sale of such goods irrespective of his turnover.

Uttar Pradesh does not allow any concession on sales of raw materials to manufacturers. However, it does allow full rebate of local sales tax and complete exemption from Central sales tax on transactions immediately preceding export in the case of a number of notified goods.

West Bengal

The Bengal Finance (Sales Tax) Act, 1941, provides for the levy of a single point tax at the last point of sale in the State. The general rate of tax is 6 per cent on commodities not exempted and not otherwise specified. Gold is taxed at the rate of ½ per cent and gold ornaments at the rate of 1 per cent. 'Declared goods' are taxed at the rate of 3 per cent and 'luxury' goods are taxed at the rate of 10 per cent. Some goods have been taken out of the purview of the above Act and are taxed under the West Bengal Sales Tax Act, 1954, at the first point of sale, generally at a rate of 5 per cent or 10 per cent.

The turnover limit for imposition of tax is Rs. 10,000 in the case of importers and manufacturers, and Rs. 50,000 in the case of any other dealers. In order to check evasion of sales tax by unregistered dealers the State Government is authorized to provide that the importers or manufacturers or producers of specified goods shall be liable to pay tax irrespective of their turnover.

All sales of goods to manufacturers who are regis-

tered under the Act and who purchase such goods for use in the manufacture of goods for sale are exempt from sales tax. A commodity entering into inter-state trade or commerce will bear the local tax if any intra-state sale of the commodity has taken place. The scheme of levy in the State is such that sales of finished products to an exporter, who is registered under the 1941Act, do not bear the local sales tax. However, no concession is allowed under the Central sales tax on inter-state transactions preceding the actual export sale.

Delhi

The Union Territory of Delhi adopted the West Bengal sales tax system, as provided in the Bengal Finance (Sales Tax) Act, 1941. Delhi has a single point tax that usually is imposed at the last point (retail). The general rate of tax levied on commodities not exempted, or not otherwise specified, is 5 per cent. A few commodities are taxed at lower rates ranging from ½ to 4 per cent, while a number of commodities are taxed at higher rates ranging from 7 to 10 per cent. The following items have been made taxable at the first point:

1) Vegetable ghee
2) Coal
3) Motor spirit, aviation spirit, and high speed diesel oil
4) Medicines, drugs and pharmaceutical preparations
5) Cement
6) Tyres and tubes.

The minimum taxable turnover limit in Delhi is Rs. 10,000 for importers and manufacturers, and Rs. 30,000 for every other dealer. However, a dealer registered under the Central Sales Tax Act is liable to pay the tax irrespective of the quantum of his turnover.

Purchases made by manufacturers for manufacture and then sale are exempt from sales tax. Intra-state sales between registered dealers preceding inter-state sale do not bear tax.

C. What Type of Sales Taxation is Best for India

There is very little agreement on what would be the best pattern of sales taxation for India. Some have argued that all States should adopt the single point retail sales tax, while others have argued that all States should adopt the single point manufacturers sales tax. Still others have argued for universal adoption of the multi-point sales tax. It has also been argued that universal adoption of one form of sales tax would be inappropriate and that the States, depending on their economic structure, should adopt one or the other system. In addition, it has been argued that a combination of single point and multi-point sales taxes should be adopted by all States. Moreover, the fact that there is still such diversity in the forms of sales taxation in the various States of India, reveals that there is no wide-spread acceptance of the superiority of one of the systems.

The Taxation Enquiry Commission felt that:

> An important distinction, in conception and design, between the multi-point system and the single point system is that the latter seeks to ensure as far as possible that not more than a specific amount of tax gets added to the price at which the article is sold to the consumer . . .[365]

They use the term 'incidence-controlled' system as broadly descriptive of both the single point tax and the double point tax, although it is realized that "the description would be more applicable to the fiscal

design of the system than to the economic facts of its actual workings".[366]

In general, the single point tax tends to have a higher rate, more exemptions and a higher turnover limit for purpose of registration, than the multi-point tax. However, there are numerous exceptions to such a generalization. Madras, for instance, although a multi-point State, has the greatest number of exemptions.

There has been widespread support by trade associations and retail merchants for single point rather than multiple point sales taxation. Their main argument has been that the multi-point tax brings a host of small dealers and petty merchants into the tax net, and that these dealers have neither the education nor the resources to comply with the law in the maintenance of accounts and preparation of returns. Moreover, it is contended, that their inability to comply with the law, to the satisfaction of the assessing authorities, often exposes them to harassment. Foreign experience is sometimes used to support this position. Canada had introduced sales taxation at the Dominion level, in the form of a turnover tax, similar in form to the Indian multi-point sales tax. But severe criticism by the business community led Canada to switch to a manufacturers sales tax which has achieved widespread acceptance. The Economic Commission for Asia and the Far East has also contended that:

> A one-stage tax at a relatively high rate is to be preferred to taxation at several stages at lower rates. This has been the experience of Burma, Pakistan and Indonesia where a single stage sales tax has found favour in preference to the existing or abolished turnover taxes.[367]

The Taxation Enquiry Commission considered the suggestion that a first stage (manufacturers) single point sales tax should be introduced in place of the existing systems in India. It realized that the principal advantage that is claimed for the first stage tax is that it makes administration relatively easy, as the tax-payers are smaller in number and more capable of

complying with the requirements of the tax authorities. It felt that while this might be true in countries, such as Canada, it was not valid for India. They contended that such a tax would neither simplify administration nor raise sufficient revenue:

> The first-point tax, to be effective from the point of view of revenue, should be one which covers, directly or indirectly, an adequate segment of the totality of sales transactions . . . It is evident that this can happen only where the bulk of trade and business in the relevant articles is so organised that it 'fans out' from a few big manufacturers, importers and wholesalers . . . These conditions will be found only in those countries in which both production and imports are large scale and organised. Where, on the contrary, production is medium or small scale, the points of production and import are relatively diffused, and trade for its part shares more or less the same characteristics, the first point tax on manufacturers, importers and wholesalers would leave a large number of small producers and small traders outside the tax orbit and the revenue realised from the sales tax would be small. This difficulty would be so great as to make such a tax unworkable even if it was the Central Government that collected the tax . . .[368]

The Taxation Enquiry Commission also pointed out that the first point tax had certain disadvantages compared with a last point sales tax; namely, that it resulted in pyramiding and provided larger incentive for evasion (since to obtain the same revenue, higher rates would be necessary).[369] It, therefore, concluded that the first point sales tax was not a suitable form of sales taxation for general adoption in India, although it might have certain limited uses as part of, or in combination with, other systems.

In light of the fact that most States have chosen to exempt sales by small scale Village and Cottage Industries from their sales taxes as a matter of policy, it is likely that a manufacturers sales tax would result in considerable simplification of administration as a result of the relatively small number of assessees and their relatively greater ability to maintain accounts and fill the required forms. Moreover, an important consideration in favour of the first point sales tax in India (one that

is never even mentioned) is the relative under-taxation of the rural sector. The manufacturers sales tax encompasses a considerably larger amount of rural consumption than the retail sales tax which is usually (of administrative necessity) confined largely to purchases in urban areas.

The Pakistan Taxation Enquiry Commission came to a similar conclusion on this matter:

> As for the choice between a single point tax and a multiple point tax, the answer is clear because Pakistan has had experience of both types of taxes and the balance of advantage has been proved to lie in favour of the single point tax. There was a lot of evasion under the multiple point tax and the business community was also vehemently opposed to it. The change-over to a single point tax in 1951 was generally welcomed by the business community and also led to improvement in tax collections.[370]

It favoured the manufacturers sales tax over the retail sales tax because the former involved a smaller number of assessees with more satisfactory records, provided less scope for evasion, had a lower cost of collection, and covered a larger proportion of rural consumption.[371]

D. Recommendations of the Taxation Enquiry Commission

The T.E.C. visualized that there should be in the future a combined system of multi-point and single point (primarily last point) sales taxatiom. In order to reach the lower income groups and to cover a large number of persons, the T.E.C. recommended a multi-point sales tax levied at a rate of not more than ½ per cent. It was felt that there should be no exemption[372] and all dealers having a turnover exceeding Rs. 5,000 a year should be made liable to the multi-point tax.

The T.E.C. emphasized strongly that the rate of the multi-point tax should not exceed ½ per cent. They stated that:

> In the context of the combined system we envisage, we consider that, irrespective of the level of the single point rate which may be adopted, the concurrent multi-point rate cannot be anywhere near as high as one and a half per cent which, in the context of their present systems, now obtains in Madras and certain other multi-point States.[373]

The T.E.C. felt that, by itself, this low rate multi-point tax would not constitute an adequate system of sales taxation and that it would be inequitable and discriminatory in favour of the middle and higher income groups. Thus, it recommended that for the middle and higher income groups and for dealers at a higher level of turnover, the multi-point aspect of the system should co-exist with the levy of a single-point tax (ordinarily at the last stage of sale) at a higher rate. For this single point tax the T.E.C. recommended that the turnover limit should be relatively high, say Rs. 30,000 a year. However, the rate of the single point tax and the taxable quantum of the dealers liable to this tax, were to be determined by each State in accordance with its revenue requirements and other circumstances after taking into consideration the likely realizations from the basic multi-point tax. The higher rate of the single point tax was to apply to goods other than those entering the cost of living of the poorer classes. Moreover, the T.E.C. felt that the single point tax need not be uniform on all types of goods, and that a higher rate should be applied to 'luxuries'.

It is worthwhile giving some attention to the multi-point part of the combined system recommended by the T.E.C.

E. Advantages of a Multi-point Sales Taxation

A multi-point sales tax system is regarded as having the following main advantages:[374]

(1) The accounting to be prescribed for the dealers would be relatively simple since each dealer would pay the tax irrespective of whether a preceding or succeeding dealer is liable to tax on the commodity concerned.

(2) From the point of view of the taxing department, administration would be simple, since assessment would be based essentially on a simple total of sales turnover.

(3) Since the tax is spread over a large number of stages in the chain of distribution it will be light in its incidence on any individual dealer, and therefore, will provide no serious incentive to evasion.

(4) But even if there is evasion at one stage of distribution, other stages may not escape taxation and the revenue loss to the State will not be large.

(5) Cross checks on the movement of goods backward or forward would be fairly simple; and the correctness of reported turnovers could be roughly checked against purchase value of goods or the daily cash balances of the business.

It has been claimed that another advantage of the multi-point sales tax is that, the tax at each stage being low, a part of the tax is frequently borne by the intermediaries, in the chain of transactions leading to the final sale to the consumer.[375] Actually, to the extent that this is true, it should probably be considered a disadvantage of the multi-point sales tax. The general intent of sales taxes should be to tax consumers and not producers or intermediaries; as a tax on producers or intermediaries it is bound to lead to undesired inequities both among producers and consumers.

F. Disadvantages of Multi-point Sales Taxation

It is a major contention of this writer that there is very little to be said in favour of multi-point taxation in India, or elsewhere. Whatever advantages it has are due to its general applicability and the absence of exemptions. As will be seen in the section on exemptions, all of the States with multi-point sales tax systems have found it necessary or desirable to grant a significant number of exemptions. Moreover, the States have agreed to forego sales taxation on cloth, sugar and tobacco for a share of the additional excise duties on these products. Hence, these important commodities would be exempt from any State sales tax, thereby further reducing the generality of the multi-point sales tax systems. Moreover, under the multi-point sales tax system it is very cumbersome to exempt raw materials and intermediate products, if this is felt to be desirable. It also makes it much more difficult to exempt exports from the burden of sales taxation.

Another disadvantage of multi-point sales taxation is that it encourages uneconomic vertical integration. This consideration seems to be given much less importance in India, than in some of the Western European countries which have or had multi-point (turnover) sales tax systems. There is even a line of thought that regards the tendency towards the elimination of middlemen to be an *advantage* of multi-point sales taxation.[376] In any event, there have been very few specific instances given in which middlemen have been eliminated as a result of the multi-point sales tax.[377]

Proponents of the multi-point system have argued that it provides less incentive for evasion. On the other hand, proponents of the single point system (especially the first point system) claim that the single point system makes evasion more difficult. Sales tax administrators in some of the States which levy a multi-point sales tax seem to feel that a great strength of the multi-point system is that while evasion at one point

or another is likely, it is unlikely that any products will escape sales taxation altogether. This line of argument is not very convincing. Many small evasions (in terms of revenue) are not any better than a few large evasions. It is the total amount of revenue that is lost as a result of evasion and that is important. Unfortunately, there is no adequate and comparable data regarding the scale of evasion under the different systems. However, after discussing this matter with numerous sales tax officials, this writer feels that the degree of evasion does not differ very much between single point and multi-point sales tax systems. The quality of the sales tax administration seems to be a more important factor influencing the extent of evasion in any particular State.

It will be seen in the chapter on rates of sales taxation, that all of the States which have adopted a multi-point sales tax system, have levied rates considerably in excess of the one half per cent recommended by the T.E.C. In light of the relative ease with which multi-point sales taxes can be evaded, it seems likely that once the multi-point rate is raised to two per cent or more that the net gains from evasion became at least as attractive as under a single point sales tax system.

G. Recommendations of the State Taxation Enquiry Committees

Most of the State taxation enquiry committees have been rather eclectic in their recommendations regarding sales taxation. They have generally been in favour of a combination of multi-point and single point sales taxes, depending on the commodity. There is a fairly widespread belief that the single point system is appro-

priate for the more urban States, while the multi-point system is more appropriate for the relatively rural States. For instance, the Andhra Sales Tax Enquiry Committee stated that: "speaking generally, where the production and trade are centred in urban areas a single point system is advantageous, but where these are centred in rural areas, a multi-point system is favoured."[378]

Similarly, in his study of the sales tax system in Andhra Pradesh, Dr. P.S. Lokanathan concluded that: "In a predominantly agricultural economy like Andhra Pradesh, where the bulk of production and trade is in agricultural products and in products of small industries, a general adoption of single point system is impracticable."[379]

However, the Orissa Taxation Enquiry Committee presented just the opposite view.[380] Both the trade and official witnesses before the Committee were against the adoption of the multi-point system.

> The Government's main objection was that the rate being low in the multi-point system and the number of points being few in Orissa the total effect would be to reduce the present level of revenue.[381]

The Commissioner of Commercial Taxes in Orissa prepared a statement showing that the number of sales transactions that usually occur in respect of taxable goods was very low, frequently just one. The Committee found that:

> This is not . . . surprising in view of the predominance of the rural and non-monetary sector in the economy of the State. It is only with the progress of urbanisation and achievement of higher standards of living by the people and the consequent diversification of trade that the bulk of the taxable goods can be expected to pass through a larger number of stages of sale.[382]

Thus, they concluded that multi-point sales taxation was inappropriate because of the predominantly rural nature of the State.

The Orissa Taxation Enquiry Committee's objection to multi-point taxation was that with a low-rate multi-

point sales tax system the State would not receive adequate revenue as most of the commodities subject to sales taxation do not pass through more than one or two sale transactions.

It is necessary to look more closely at the contention that in the predominantly agricultural States where the bulk of production and trade is in agricultural products and in products of small industries, the general adoption of a single point system is inpracticable, and that a multi-point sales tax is required. First it should be noted that most of the State Governments, as well as the Central Government, have adopted a policy of providing special encouragement to small scale industries. Most States, even those levying multi-point taxes, do not place any sales tax on the products of 'Cottage and Village Industries'. Thus, the main argument in favour of a multi-point sales tax, is that this is the only effective means of taxing agricultural products. It will be argued later that it is undesirable to tax agricultural food products, because entire burden of such a tax is borne by the urban population, while rural consumers of such products are able to escape such taxation. However, assuming for the present that it is desirable to tax agricultural products, there is no reason why this cannot be done just as effectively under a single point sale or purchase tax as under a multi-point sales tax. While it would not be possible to levy a single point tax on the producers, it would be possible to levy sales or purchase tax on the wholesalers or processors. Although any attempt to place a sales tax on agricultural products must necessarily result in considerable evasion, there is no reason to expect such evasion to be greater in the case of a single point sales or purchase tax on the wholesaler or processor than in the case of a multi-point sales tax. Moreover, a multi-point sales tax on agricultural products brings so many traders into the tax net that administrative difficulties are greatly increased.

The Sales Tax Enquiry Committee of Bombay came to the conclusion that no single system by itself would be satisfactory. They recommended a complex composite system which consisted of a first point, a last point and what really amounts to a triple point system. It was suggested that 69 articles or classes of goods be taxed at the first stage of sale alone, with all subsequent transactions being exempted. For a list of twenty items they recommended taxation solely at the last stage. It was recommended that all other goods be subjected to three types of taxes: (1) a 'Sales Tax', which would be paid at the first stage, that is by the manufacturer or other producer and importer; (2) a 'General Sales Tax', which would be paid at the last wholesale or semi-wholesale stage; and (3) the 'Retailers' Turnover Tax' which would be paid on the turnover of his sales by a retailer.[383]

It was suggested that the 'General Sales Tax' be levied uniformly at a flat rate of 2 per cent, but that the 'Sales Tax' should vary from 3 per cent to 8 per cent depending on the comparatively more or less essential nature of the goods. The 'Retailers' Turnover Tax' was to be paid on the total turnover of sales of taxable goods at the rate of .25 per cent of the retail sale price. With regard to the Retailers' Turnover Tax the Committee contended that:

> The comparatively small sum of tax thus leviable from a retailer will be readily absorbed in his profit and the 'consumer resistance', to which the business of a retailer is particularly prone when the tax is to be collected separately at the last stage, will disappear almost entirely.[384]

Thus, we have an explicit statement that the incidence of the 'Retailers' Turnover Tax' was intended to be placed on the retailer rather than the consumer. This is rather surprising, since the intent of probably all other retail tax legislation in the world has been that the tax be borne by the consumer and not by the retailer. Since the composite system recommended by the Sales Tax Enquiry Committee has been adopted

by Gujarat and Maharashtra,[385] it would be extremely interesting to find out the response of retailers to the Retailers' Turnover Tax. Did they attempt to pass on the burden of the tax either by charging higher prices or by actually attempting to collect the tax from customers, or was the tax really absorbed by the dealers? It can be argued quite plausibly either that since the tax is so low the retailers would not bother to attempt to pass it on, or that since the tax is so low it could quite easily be passed on (as consumer resistance would presumably be quite low). Unfortunately, this writer has not been able to get any information on this question.

H. General Suggestion for Reform

There is a very good case for doing away with multi-point sales taxation in India. Due to its cumulative nature a multi-point sales tax results in discrimination (according to the number of transactions affecting any given product) and in non-uniformity of consumer burden. It discriminates against those consumers with a relatively high preference for the goods which pass through numerous transactions. It also results in discrimination against non-integrated firms and encourages vertical integration. The major advantages of a multi-point system relate to its general applicability and the absence of exemptions. However, neither of these advantages has been obtained by any of the multi-point sales tax systems in India. Both for equity and administrative reasons all of the States that levy multi-point sales taxes have found it necessary to levy single point sales taxes as well. Moreover, all of the States have introduced numerous exemptions to their

multi-point sales tax systems. Thus, in practice the sales tax systems of the States levying multi-point taxes have become extremely complex. The tax is collected from an extremely large number of vendors (manufacturers, wholesalers, retailers, etc.). Under a multi-point sales tax system it also becomes cumbersome to exempt exports from the burden of sales taxation.

It has not been possible to arrive at a clear conclusion as to which form of single-stage sales tax is preferable in the Indian context. Many products are best taxed at the stage of production. However, other products (especially agricultural products) are easier to tax at the processing or wholesale stage. Furthermore, there are numerous theoretical advantages to a retail sales tax and many States have made an effective use of this type of sales tax.

In general, in the Indian context it is preferable to tax as many of the luxury goods as possible at the point of import or manufacture. It is considerably more difficult for the importer or manufacturer to evade sales taxes on most luxury goods, than it is for the retailer to evade such taxes.[386] A retail sales tax can probably not be levied effectively at a rate of more than about six per cent. Especially in the case of relatively expensive luxury items, the consumer is likely to apply considerable pressure on the retailer not to levy the sales tax if it is levied at a rate in excess of six per cent. Thus, as many luxury items as possible should be taxed at the first point.[387] On the other hand the sales tax on most of the remaining goods should be placed on either the wholesaler (or last sale by a registered dealer, as is currently the practice in the 'last point' sales tax levied by Gujarat and Maharashtra) or on the retailer. If levied at the 'wholesale' stage the rate of this 'general' sales tax probably should not exceed six or seven per cent. If levied at the retail stage the rate probably should not exceed five or six per cent.

Thus, a pragmatic mixture of two of the three main types of single-stage sales taxes may be the most appropriate form of sales taxation for the States at this point in their development. However, each product should be taxed at only one stage. The multiple point sales taxes and the double point sales tax in Gujarat and Maharashtra should be eliminated.

4. Sales Tax Exemptions

If a sales tax is to be productive of revenue and feasible of administration, the coverage should be broad and exemptions should be held to a minimum. From the point of view of economic neutrality, a sales tax should cover all consumption expenditures, that is, it should apply to the sale of all goods and the rendering of all services which directly satisfy consumer wants. As John Due has said:

> A strong prima facie case exists for universal application of the tax except in those instances in which there is specific justification for exemption. A primary objection to any exclusion is the inevitable discrimination against those persons who have relatively low preferences for the exempt items. In addition some reallocation of resources away from the pattern dictated by consumer choice is inevitable. Any exclusion also necessitates a higher tax rate to gain a given sum of revenue, and is likely to complicate administration. With most exemptions, problems of delimiting taxable and non-taxable transactions arise, and, if the exempt items are sold by firms also selling taxable items, compliance with the tax is made more difficult. The vendors must ascertain the tax status of each sale, and distinguish in their records between taxable and non-taxable sales. Some mis-application of tax is inevitable, and some outright evasion through mis-reporting of sales is likely.[388]

These basic objections to exemptions should be kept in mind in our evaluation of any specific exemptions.

Before engaging in a detailed evaluation of sales tax exemptions in the various Indian States, it is useful to mention a few basic types of exemptions which may be justifiable. There is a strong justification for exempting industrial machinery and equipment as well as industrial fuel and goods directly consumed in industrial processing, in order to encourage economic development and

to avoid unintended discrimination in the cumulative burden on finished products. However, it is not feasible to exempt all goods used by business firms, because many of these items are also purchased for consumption purposes. Similarly, a good case can be made for exemption of the inputs used in agriculture, such as seeds, fertilizers, agricultural implements, etc. In addition, a good case, from an equity standpoint, can be made for exempting food, since the lower income groups spend a considerable proportion of their incomes on food. However, if an attempt is made to exempt other items used by the lower income groups, such as various articles of clothing, soap, kerosene, etc. the administration of the tax is likely to become seriously complicated. Such exemptions make it difficult for vendors to comply with the law. As has already been pointed out, there is also a good case for exemption of exports.

The various States show considerable diversity in both the extent of exemptions and in the specific products exempted. Not a single article is exempted universally.[389] The item which comes closest to universal exemption is salt, which is exempt in every state except Uttar Pradesh. Fresh fish and green vegetables are each exempt in all but two States. However, even when exemption is allowed on the same item in almost all States, it is frequently the case that some States will allow unconditional exemption while others exempt the item only under certain conditions, such as its not being sold in a sealed container. Books provide a good example of the diversity in the exemption policy of the various States. Eleven States exempt all books. Kerala does not exempt any books. Orissa exempts only certain Government publications; Madhya Pradesh exempts only religious books; while Andhra Pradesh exempts school and college text-books, Government publications and religious books.

Most of the exemptions may be regarded as falling into one or more of the following categories: (1)

necessities or goods essential to the consumption of the lower income groups such as foodgrains; (2) 'producer goods', such as raw materials, industrial machinery, fertilizer and agricultural implements; (3) goods sold to or by social or economic institutions whose production it is desired to encourage, such as Cottage and Village Industries; (4) goods which are already taxed under separate laws, such as motor spirit; (5) administrative exemptions—where it is not feasible or is inconvenient and costly to tax the item; and (6) other exemptions.

A. Exemption of 'Necessities'

About half the exemptions in the State sales taxes in India can probably be placed in the first category. A large number of these exemptions are for food items. The Indian States do not follow the practice prevalent in most of the rest of the world of exempting all foods in general, and then excluding certain items or delimiting what is and what is not deemed to be a food. Instead, all of the Indian States exempt specific items of food and tax what is not exempted. As elsewhere, the primary purpose of the exemption for food items is to relieve the tax burden on the lower income groups. The sales tax systems in most countries are generally felt to be quite regressive without an exemption for food. The main purpose of the food exemption in these countries is to lessen the degree of regressivity of the sales tax system. The sales tax systems of the Indian States would probably be progressive[390] even if there was an attempt to tax all foods, since most foods would escape taxation in the rural areas. In any event, the food exemption definitely increases the progressivity of the sales tax systems in India. Moreover, a food exemption is

very important in India from the point of view of equity between the rural and urban sectors. In the Indian context, a sales tax on food would be collected almost entirely from the urban sector, as it is administratively almost impossible to collect it from the rural sector. It is this fact which leads this writer to feel that the exemption for food should cover many more items in many States.[391]

There is considerable diversity in the number of food items that are exempt in the various States. Assam, Delhi, Gujarat, Jammu and Kashmir, Maharashtra and West Bengal have the largest number of food exemptions. In these States most of the major food items are exempt. On the other hand, Bihar, Kerala, Madras and Uttar Pradesh exempt the least number of food items. Cereals and pulses, which account for a considerable proportion of the expenditure on food in India, are exempt in only seven States. While no food items are exempt in all the States, the following seven items are exempt in thirteen or more of the States: Fresh meat, eggs, fresh fish, fresh vegetables, fresh fruits, fresh milk and salt.

In light of the very low standard of living of the majority of the Indian people, there is a surprising amount of sales taxation of food. However, the extent of this taxation is not as great as one might surmise by looking at a chart of exemptions. While many important food items are taxed under some of the sales tax systems, they are frequently taxed at very low concessional rates; for instance, cereals and pulses are generally taxed at the rate of $1\frac{1}{2}$ per cent or less.

There is one condition attached to many of the food exemptions which is intended to increase the progressivity of the sales tax system, by taxing some of those food items which are solely or predominantly consumed by the upper classes. Thus, in many states the following items are not exempt if sold in sealed containers: cereals and pulses, meat, fish, green vegetables, salt, milk and chillies. It is assumed that these items are

consumed only by the rich when sold in sealed containers.

An extensive food exemption has a number of justifications. It increases the progressivity of the sales tax system and it simultaneously reduces or eliminates most of its horizontal inequities. The food exemption virtually eliminates the discrimination against large families and it largely eliminates the inequity between the rural and urban sectors under a sales tax system.

A number of non-food items are considered to be necessities and are exempted in some States. Among these are the following items : footwear made by hand, matches, kerosene, firewood and charcoal and cheap cloth. A sales tax on firewood and charcoal reaches only the urban sector and is difficult to administer even in the urban sector. Thus, to promote equity between the rural and urban sectors and to simplify administration it is desirable to exempt these commodities from sales taxation. However, there is probably very little justification for exempting matches and kerosene from sales taxation. Both of these commodities are easily taxed at the first point of sale by the manufacturer or importer, so that both the rural and urban sectors are reached effectively. Moreover, both commodities bear excise taxes which are over 100 per cent and among the heaviest of all rates of excise. If it is deemed appropriate to subject these commodities to such heavy rates of excise, it is hard to justify their exemption from sales taxes levied at relatively insignificant rates. Furthermore, since a larger proportion of these products than most other products are purchased by the rural sector, and since the rural sector tends to escape sales taxation to a much greater extent than the urban sector, sales taxes on these products would seem especially appropriate from the point of view of rural-urban equity. While sales taxes on matches and kerosene would probably be regressive, this is not too important since the sales tax systems as a whole would remain quite progressive. Moreover, it is widely felt that

even the poorer classes in India must pay some taxes if there is to be adequate revenue for financing economic development. Of all the commodities consumed by the poorer classes, especially of the rural sector, these two commodities are administratively the easiest to tax.

There are a number of other necessities such as soap, cheap clothing, etc. which might also be exempted from sales taxation. However, the expenditures on most of these items are sufficiently small so that the absolute burden on the lower income groups is not significant, and considerations of equity would not appear to outweigh the additional administrative complications created by multiplying exemptions. Moreover, widespread exemptions lead to discrimination and distortion of resource allocation.

B. Exemption of 'Producer Goods'

Intermediate or producer goods (raw materials, industrial and agricultural machinery, fertilizers, etc.) are generally not exempted by the sales tax systems in India. Most of the goods under this category that are exempted are used in agriculture. Non-mechanized agricultural implements are exempted in twelve States. In addition the following items are exempted in a number of States: fertilizers, manures, pesticides, livestock, bullock-carts, and cattle feeds. Water-pumping sets are exempt only in Rajasthan. There is a strong justification for exempting all intermediate and producer goods, and this includes agricultural inputs as well. In India where increased agricultural production is urgently required, these exemptions have even more justification.

The following raw materials are exempted in some of the Indian States: sugarcane, raw jute, raw wool, silk-worm cocoons, cotton, and lime and limeshell. However, most of these exemptions are given in only one or two States, and only sugarcane is exempted in as many as five States. One of the few producer goods which is exempted is the *Charkha*, which is used in the manufacture of Khadi.[392]

As with most aspects of sales taxation, the States show wide diversity in their treatment of raw materials used by manufacturers. All goods (raw materials) purchased by a manufacturer or producer for purposes of manufacture or production of goods for sale are exempt from sales taxation in three States: Delhi, Punjab and West Bengal.[393] In the States of Gujarat and Maharashtra, exemption is granted in the case of most raw materials purchased by a manufacturer for manufacture and sale. Assam grants exemption to such sales on the condition that the raw materials are used in the manufacture of taxable goods[394] and that the purchasing manufacturer makes the sale of the finished product within the State and not inter-state. Bihar, Kerala, Madhya Pradesh, Madras and Rajasthan do not exempt such sales, but they do levy a concessional rate of 1 per cent under varying circumstances. In Bihar all such sales are taxed at the rate of 1 per cent. In Kerala, sales of certain goods, mentioned in the Kerala Sales Tax Act are taxable at a concessional rate of 1 per cent if such goods are used as component parts of the goods manufactured for sale. In Rajasthan the sale of all raw materials (including fuels and lubricants) to manufacturers are taxable at the rate of 1 per cent.

> In the case of Madras: "No concessions from tax are generally allowed by the State Government on raw materials used in the manufacture of finished products but there is a provision under which in respect of the sale of goods mentioned in the first schedule of the Act by a dealer to another for use by the latter as a component part of any other goods mentioned in that schedule which he intends to manufacture

inside the State for sale, the tax liability is reduced to 1 per cent."[395]

As of 1965 this concessional rate has been raised in Madras to 1½ per cent.[396] The provision in the Mysore Sales Tax Act is similar to that mentioned above for Madras, but the concessional rate of tax in Mysore is 2 per cent.

In the following States there are neither exemptions nor concessional rates for sales of raw materials to a manufacturer: Andhra Pradesh, Jammu and Kashmir, Orissa and Uttar Pradesh. However, the Central Sales Tax Act requires all of the States to levy concessional rates on certain specified raw materials declared to be of special importance in inter-state trade. Among the declared goods are coal, cotton, hides and skins, iron and steel, jute, and oil seeds. Section 15 of the Act provides that a State's sales tax on such goods inside the State shall not exceed three per cent[397] of the sales or purchase price and that such tax shall not be levied at more than one stage.

One of the most significant, and troublesome, questions relating to sales taxation, is the question of the application of sales taxation to producers' goods and raw materials. If sales taxes are regarded as taxes on consumption expenditure, sales of producers' goods (that is, articles used in further production) should not be taxed; to do so results in multiple and unequal burdens on the final consumption of various products. Discrimination and resource reallocation will result because of the variation in the extent to which taxable producers' goods enter into the costs of various products. Goods produced in labour-intensive industries will bear a lower overall burden per rupee of consumer expenditures than those produced in capital-intensive industries.[398] Moreover, the taxation of producers' goods is undesirable because it places an artificial tax penalty on new investment, which is an important consideration in a country placing strong emphasis on economic growth. Furthermore, the taxation of producers'

goods may increase the sales tax incidence on exports.[399]

Thus, there are very strong arguments for the exemption of important producer goods, such as industrial machinery and equipment, industrial fuel and goods directly consumed in the manufacturing process. However, it is not feasible to exempt all goods purchased by business firms, because many of these items are also purchased for consumption purposes. To allow anyone to make tax-free purchases for business use would pave the way for widespread evasion of tax, especially on the part of farmers and small business operators. It would make the task of vendors, in distinguishing between taxable and non-taxable sales and in maintaining records very troublesome, and make control by the administration almost impossible.

As a consequence of the impossibility of excluding all purchases of producers' goods from the tax many governments have followed the policy of excluding from tax only those producers' goods which become actual physical ingredients or component parts of the final product.[400] This practice is followed in a number of the Indian States, including Kerala, Madras, and Mysore. Each of these States has a concessional rate for 'component parts' which are recognizable in the final product. Rajasthan has a somewhat more liberal provision which provides a concessional rate for all raw materials, including fuels and lubricants. Likewise, West Bengal has a more liberal definition of 'component part'. For an article to be called a 'component part' in West Bengal, it is not necessary, even after it becomes part of another article, for it to retain its identity. All that is necessary is that it goes into the composition of the article.[401]

The main advantage of the component part, or physical ingredient rule, is that it is clear-cut and easily applicable. However, it leaves taxable a wide range of producers' goods. The same logic which supports exemption for component parts, also applies to industrial equipment and machinery, and power and fuel

used in the manufacturing process. Thus, as John Due has stated :

> Any deviation from the physical ingredient rule will inevitably complicate administration somewhat but would appear to be warranted in terms of considerations of economic effects; the problem, therefore, becomes one of drawing the dividing line in a fashion which is reasonably feasible from an administrative standpoint.[402]

At the very minimum, all of the Indian States should make provisions in their sales tax laws for the exemption of goods which become actual physical ingredients or component parts of a finished product. Moreover, this exemption should apply irrespective of whether the finished product is taxed or not taxed. In addition, all industrial machinery and equipment used directly in manufacturing should be exempted. These constitute very significant business costs and if subjected to sales taxation would tend to discourage investment. Similarly, it would be desirable to exempt all farm implements and machinery. Most of the States exempt non-mechanized agricultural implements from sales taxation, but only Delhi and Jammu and Kashmir exempt all agricultural implements. The reluctance of the States to grant exemptions to industrial machinery and equipment and to farm machinery and implements (other than those used with hand or animal power), probably, is attributable to the general reluctance in India to encourage mechanization for fear that it will reduce employment opportunities. Thus, an adequate discussion of the suitability of exempting these items would require extensive consideration of this basic policy decision which is obviously beyond the bounds of my topic. However, it is this writer's opinion that discouragement of investment in industrial machinery and equipment is a very short-sighted policy which is likely to slow down the rate of economic growth. While the question of sales tax exemption for tractors and mechanized farm implements is not as clear-cut, here again, preferential treatment for hand and animal-drawn agricultural implements is probably undesirable.

It should be emphasized that the effect of not exempting industrial machinery and equipment and mechanized farm equipment is to provide a relative advantage (or a subsidy) to investment in labour-intensive methods of production. If one feels that this is desirable in the Indian context, then not exempting such producer goods from sales taxation would be an appropriate policy to follow.

Another range of producers' goods which are not exempt in most States are materials and supplies which are directly dissipated in the process of production. Examples of directly dissipated items are the grease and oil used by machinery, fuel, electricity, catalysts, cleaning agents and solvents. These items do not become component parts of the finished product and, thus, are not exempt under the component part rule. A few States exempt all of these products dissipated in the production process, while one State exempts only fuel. To the extent that it is administratively possible, all States should exempt such products. In any event, industrial fuel should be exempted. However, any attempt to grant exemption to the use of fuel by farmers for their water pumps and tractors would probably be administratively impracticable and lead to widespread evasion of taxation.[403] Thus, the exemption for fuel should probably be restricted to registered industrial users.

While it is not administratively possible to exempt all producers' goods, an exemption restricted to component parts is too restrictive. Industrial machinery and equipment as well as some products dissipated in the process of production (especially fuel) should be exempted.

The next question is whether producers' goods should be granted a complete exemption, or merely be taxed at concessional rates. While complete exemption is preferable from the point of view of economic effects, revenue considerations may necessitate concessional rates. A sales tax of 1 per cent on producers' goods

would probably not result in any great degree of discrimination or mis-allocation of resources.

However, the aim should be to generally exempt raw materials, used in the course of manufacture, from sales taxation. If the States are unwilling to exempt raw materials, or at least to levy low rates, it might be desirable to make a suitable amendment to the Central Sales Tax Act which would lengthen the list of items declared to be of special importance in inter-state trade and commerce.[404] This would at least ensure that the enumerated raw materials are not taxed more than once and not taxed at a rate of more than three per cent.

C. Exemption for Particular Economic or Social Institutions

The third major category of exemptions is for goods sold to or by particular social or economic institutions which it is desired to promote. In India there is a general policy of supporting small scale industry, especially, certain specified small scale industries which are referred to as Village or Cottage Industries. About half of the States exempt the products of Village or Cottage Industries from their sales taxes. Madras and Mysore also make some exemptions for Co-operative Societies. A number of hand-made goods are exempted in some States. Handloom cloth, hand-made paper, handspun yarn, khadi and earthen-ware made by *kumhars* are exempt in a number of States. A wide variety of other hand-made goods are exempt in one or two States, such as hand-made *Chikan* work in Uttar Pradesh and cane and bamboo handicrafts in Delhi.

As is the case with excise taxes, there has been some

use of sales tax exemptions (or concessional rates) as a form of encouragement to industries suffering hardships. For instance, the Sales Tax Enquiry Committee appointed by the Government of Bombay, stated in its report that:

> We have however been able to accede to the request for exemption of articles and utensils made from *Kansa*. This industry is a specialised one and is located at a few centres. The sale of its products has been dwindling for some time. We consider that in these circumstances this industry may be given encouragement by way of exemption from tax.[405]

In addition to the types of exemptions mentioned above there has been a tendency in recent years to grant very specific exemptions to specific firms, or institutions generally, of a non-profit or charitable nature. The following notifications of exemptions in Madras provide examples of this type of exemption:

(1) Sales of scientific equipment and drugs to the Cancer Institute, Madras;[406]

(2) Sales by the Hostel, Stores, Dairy, etc. attached to the Shri Ramakrishna Tapovanam, Tiruchirapalli district;[407]

(3) Sales by the Madras Discharged Prisoners Aid Society, Madras, of furniture manufactured by it;[408]

(4) Sales made to the United Nations Information Service.[409]

Madras has over fifty exemptions of this nature. This type of exemption also exists in large numbers in some other States.

While the objectives of such exemptions may be laudable, such exemptions result in considerable administrative complexity and, not infrequently, in considerable evasion. The benefits conferred on the specific institutions are simply not worth the increased complexity of administration which accompanies them. Exemptions to individual institutions on an *ad hoc* basis are, perhaps, the least desirable of all exemptions in the sales tax systems of India. The existence of such exemptions, almost inevitably results in political

pressures for additional exemptions of a similar nature, thus, creating significant administrative difficulties. Sales taxation hardly seems the most appropriate means of helping such institutions. If such help is deemed desirable in any particular instance, it would be better provided by direct subsidies. There is much to be said for the general proposition that a State should not grant a hidden subsidy (in the form of an exemption from sales taxation) in cases where it would be unwilling to grant an outright appropriation.

Similarly, there is very little justification for granting exemptions to co-operative societies. If co-operative societies are found to be an efficient means of production and distribution such help should not be necessary, and if they are not efficient they should not be encouraged. There is probably somewhat more justification for the exemption for Village and Cottage industries, if they increase employment. But, here again, there is a danger of subsidizing inefficient forms of production. As P.S. Lokanathan has stated:

> Though this policy is in pursuance of certain social and economic objectives, it results in discrimination and opens the door for evasion. Sometimes, it also results in the encouragement of wasteful and uneconomic methods of production.[410]

The Taxation Enquiry Committee commented in a similar vein that "sales tax concessions are hardly a suitable method of encouraging particular industries, trade activities, etc."[411] Here again, it is preferable to grant subsidies if it is felt to be desirable to promote such industries.

D. Exemptions for Products Taxed Under Separate Statutes

The fourth basic type of exemption covers goods which are already taxed by the States under separate laws. Exemptions of the following products are of this type: electrical energy, motor spirit, liquors. Electrical energy is specifically exempted from sales taxation in nine States. All States levy a separate tax called an Electricity Duty. There is some uncertainty as to whether the specific exemption for electrical energy is necessary. The Sales Tax Enquiry Committee appointed by the Government of Bombay in 1957 commented as follows :

> We understand that electrical energy for taxing the consumption and sale of which there is a separate entry, viz. Entry No. 53 in List II of the Seventh Schedule of the Constitution, cannot be considered to be covered by the expression 'goods'; if so, even if electrical energy is not specifically included in the list of exemptions, it will not be liable to tax under the Sales Tax Law.[412]

As far as this writer has been able to ascertain no States tax electrical energy under their sales tax laws, although as pointed out above, only nine States specifically exempt electrical energy.

All of the States except Kerala have a separate law providing for sales taxation of motor spirit. Twelve States make a specific exemption of motor spirit from their general sales tax laws. While Assam and Bihar make no specific exemption of motor spirit, they do not appear to levy a sales tax on motor spirit as part of their general sales tax law.[413] Kerala is the only State which does not have a separate sales tax law for motor spirit, but instead taxes motor spirit under its general sales tax law.

While all States levy State excise duty on liquors,[414] some States exempt liquor from sales taxation, while other States tax liquor under their sales tax laws as well. Madras and Rajasthan exempt all liquors from sales taxation. Uttar Pradesh only exempts country

liquor, while Andhra and Kerala only exempt toddy. The other States tax liquor under their sales tax laws.

E. Other Exemptions

All States exempt certain specified products on which they have agreed to forego sales taxation in return for a share of the additional duties of excise which are levied by agreement. The following commodities are subject to additional duties of excise (and are, therefore, exempt from sales taxation) : sugar, tobacco, cotton fabrics, woollen fabrics and, until very recently, rayon or artificial silk fabrics.

In addition to these commodity exemptions there are taxable turnover limits in each State. Thus, if a vendor's turnover is below a specified annual amount, his sales are exempt from sales taxation.

The wording of some exemptions in the tax laws leads to widespread evasion of the tax. For instance, in Mysore firewood and charcoal 'when sold for domestic use' are exempted. The wording of the exemption makes almost every sale of firewood and charcoal be shown as a sale for domestic use.[415] Either all firewood and charcoal should be exempted, or the exemption for domestic use should be abolished.[416] Exemptions which are conditional upon use complicate compliance and enforcement as determination of use at the time of sale is often very difficult.[417] Outright exemption by category of goods, regardless of the nature of the purchaser in particular instances is greatly to be preferred.

It is desirable to have clear, precise lines of demarcation of taxable and exempt categories. The Taxation Enquiry Commission also emphasized this point as

follows:

> Exemptions which are vague or undefined, or are liable to be interpreted in more than one way are always a source of harassment to the traders and lead to corruption of the officials. It is necessary, therefore, that the exemptions should be expressed in terms of well-defined categories of goods which both the trade and the administration can readily understand.[418]

Several States have exemptions which are related to the prices of the commodities; *i.e.* the exemption becomes operative only when an article belonging to the general category is sold at below a specified price. An example of this is found in the sales tax laws of Gujarat and Maharashtra, which exempt hand-made shoes which are sold at a price not exceeding Rs. 7 per pair. Similarly, Mysore exempts carpets woven on handlooms when sold at a price not exceeding Rs. 15 per carpet. Exemptions of this kind add confusion, increase the complexity of accounts and often result in evasion of the tax. This kind of exemption should be eliminated, as the increased costs of administration and compliance they occasion are not worth any slight increase in progressivity that they may achieve.

F. Exemptions and Concessions on Sales to Government

In the American states, federal and state constitutional restrictions prevent the uniform application of sales taxes to government instrumentalities. In India, there are no such constitutional restrictions prohibiting sales taxes on sales to Government. However, the Central Sales Tax Act provides for a concessional rate of 3 per cent on inter-state sales to the Government.

The Government may be purchasing for resale in case it is carrying on business or trade, or for purposes of consumption, use, or manufacture for resale. In the first case, the commodities will come within the purview of the sales tax of the importing State as well. However, purchases made for other purposes by the Government do not come within the purview of the importing State. The tax of 3 per cent on such sales may differ substantially from the rate imposed on the same commodities on inter-state sales by the importing State. This tax differential may encourage the Government to purchase goods out of State and lead to unnecessary movement of goods and waste in the economy. If intra-state sales to the Government were taxed at the rate of 3 per cent (or were exempt) there would not be any (or much) uneconomic incentive to purchase goods from another State. However, it appears that in most States sales made to the Government are not exempt from the tax, or even subject to concessional rates. In Punjab and Rajasthan sales to Government departments are taxed at the rate of 3 per cent in all cases where the tax prescribed on a commodity is more than 3 per cent. Uttar Pradesh completely exempts sales to Government departments except in the case of cement. But most other States make no concessions for sales to Government.[419]

Since most of the States have no concessional tax on intra-state sales to Government, it would appear that there is no justification for the Central sales tax to be imposed at a concessional rate of 3 per cent on such inter-state sales. Hence, it would probably be better to treat inter-state sales to Government the same way as sales to ordinary dealers.

None of the States exempt (or provide concessional rates) for sales to local governments.

The exemption of sales to Governments can be defended on the grounds that to tax Governments would merely take money out of one pocket and put it into another. In view of the nature of this transfer it

is alleged that the tax merely involves an additional cost which is unnecessary. However, it is entirely possible that the compliance costs of keeping the necessary records involved with this exemption are greater than the added costs of having Government agencies pay the tax.

The 'pocket-to-pocket' argument has merit regarding sales to the agencies of the State levying the tax. However, the transfer is less clear-cut regarding sales to the Federal Government, Local Government and other State Governments. In these cases what is taken out of one pocket is not necessarily returned to the other pocket.

G. Taxation of Services

Sales taxation in India is confined to the sales of 'goods'— tangible personal property. Services are not taxed.[420] However, the philosophy of a sales tax as a levy on consumption expenditures provides no justification for the exclusion of services from sales taxation. Services rendered to business firms should not be subjected to sales taxation, as they are essentially producers' goods. But services rendered to consumers, satisfy personal wants just as much as sales of goods to consumers, and, therefore, should be subjected to sales taxation. Thus, considerations of neutrality and equity suggest the taxation of services. The failure to subject consumer services to sales taxation means that individuals making relatively high expenditures for services are favoured compared to those concentrating their expenditure on tangible goods.

As a matter of social policy it is generally felt to be desirable to exempt such services as medical, dental and

hospital care. However, there would seem to be very little justification for not taxing services such as dry cleaning, photo-finishing, and repair work. Perhaps the most important service that should be taxed is the rental of hotel rooms. While in almost all States the cost of meals in hotels is subject to sales taxation, the cost of hotel rooms is not subject to sales taxation. For administrative reasons it would probably be desirable to exclude small hotels from such a tax. This could be accomplished either by setting a minimum annual turnover limit or by taxing rooms the charge for which exceeds a certain specified amount (something like Rs. 5). Another service which might be desirable to tax is taxi and motor scooter charges. Since they are generally required to have meters it should not be very difficult to enforce such a tax. Moreover, in light of the tax placed on bus transportation in many States such a tax seems appropriate. If it is found to be difficult to tax the cost of taxi service, it might be preferable merely to levy a lump sum fee per year or to increase the license charge for taxis.

In India, the main justification for not taxing services is that it would lead to serious administrative difficulties. A prime example of a service which it is not administratively feasible to tax, is the work of personal servants. It was largely this administrative unfeasibility that led the Taxation Enquiry Committee not to recommend the extension of the sales tax to services.[421] However, in some cases the taxation of services may very well simplify administration. When services as such are not taxed it is frequently necessary to set up arbitrary lines of demarcation between commodity and service. Most types of repair services involve this problem of segregating commodity and service; whereas, if the repair services themselves are taxable, the problem is avoided, since the entire charge becomes taxable.

In addition to the administrative objections to taxing services there is a constitutional restraint in India.

Entry 54, List II of the Seventh Schedule of the Constitution of India grants the States the power to levy taxes on 'the sale or purchase of goods'.[422] Thus, the States have no specific power to tax services as such. However, the Constitution did grant the States the power to tax a few specified services. Thus, the States are permitted to levy taxes on the consumption or sale of electricity and on goods and passengers carried by road or inland waterway. All of the States also levy an entertainment tax on admissions. It should not be difficult to amend the Constitution so as to make sales taxation of 'other services' possible.

Consumer services are necessarily retail in nature and, therefore, are most easily included in a retail sales tax. On the other hand, manufacturers' wholesale and multi-point sales taxes do not lend themselves to easy taxation of services. However, in light of the heterogeneous nature of the sales tax systems in India, the States would probably have little difficulty in including services within their sales tax systems, if the necessary Constitutional power were provided.

While it is not administratively possible to tax all consumer services in India, serious consideration might be given to including a few services within the scope of sales taxation which would not provide too much administrative difficulty. It might be desirable to levy a sales tax on dry cleaning service, on various repair services, on taxi charges and on the price of hotel rooms and then, if these taxes prove administratively feasible, gradually to extend the tax to other services. Since many services tend to luxuries and since it is likely that the relative importance of expenditure on services will rise as development takes place, it is desirable to start giving some serious attention to the taxation of services.

5. Other Aspects of Sales Taxation

A. Sales Tax Rates

There is considerable rate differentiation in most of the States' sales tax systems. In fact, one of the most distinguishing characteristics of sales taxation in India is the extent of rate differentiation.[423] Most of the sales tax systems in other countries have only a single rate irrespective of whether they are multiple point systems or any variety of single point system. The retail sales taxes of the North American States and of the Canadian Provinces are generally levied at a single rate on all commodities subject to the tax. The same is true of the wholesale sales taxes of Pakistan and New Zealand, and of the manufacturing sales taxes of Canada and the Philippines.[424]

In general, the multiple point sales taxes levied by the Indian States have considerably less rate differentiation than the single or double point sales taxes. Andhra Pradesh and Kerala levy their multi-point sales tax at the single rate of 3 per cent. Mysore also levies its multi-point sales tax at the rate of 3 per cent, although a few items are taxed at the rate of 1½ or 2 per cent. The multi-point tax in Madras is levied at the rate of 2½ per cent,[425] except for foodgrains which are taxed at the rate of 1 per cent. The multi-point sales tax of Bihar is somewhat different in form than that found in the other States. The last sale by a registered dealer is taxed at the rate of 4 per cent,[426] while all previous sales are taxed at the rate of 1 per cent. Uttar Pradesh has the greatest amount of rate differentiation in its

multi-point sales tax system. Bullion, specie, copper, tin, nickel and zinc are taxed at the rate of 1/2 per cent. Foodgrains, hosiery and cotton waste are taxed at the rate of 1 per cent. A number of commodities are taxed at the rate of 2 per cent, while rubber goods are taxed at the rate of 10 per cent. However most of the commodities subject to multi-point sales taxation in Uttar Pradesh are taxed at the rate of three per cent. Thus, the most common rate of multi-point sales taxation in India is 3 per cent.

In regard to multi-point sales taxation there is little justification for any rate differentiation at all. The main advantage of a multi-point system is the simplicity of administration and compliance that results from the levying of a single rate. However, if it is deemed desirable to make the general rate as high as three per cent, and if it is not deemed desirable to exempt foodgrains altogether, then there is probably some justification for taxing foodgrains at a lower rate, as is done in Madras.

The single point sales tax systems in most States have what can only be regarded as an excessive amount of rate differentiation. Depending upon the commodity, Andhra Pradesh levies a single point sales tax at the following percentage rates: 1/2, 1, 2, 3, 4, 5, 6, 7, 9, 10 and 25. Madras has the following single point percentage rates: 1, 1½, 2, 2½, 3½, 4½, 5½ and 11. But worst of all is Mysore which levies 16 different single point percentage rates: 1, 1½, 2, 2½, 3½, 4, 4½, 5, 5½, 6½, 7½, 8½, 9½, 11, 12½ and 25.[427] Assam, Delhi, Kerala, Orissa, Rajasthan, and Uttar Pradesh, all levy six or more different single point rates. Only Bihar, Jammu and Kashmir, Punjab and West Bengal have five or less single point rates. This excessive rate differentiation is perhaps the most significant defect of the single point sales tax systems in India. The desired progressivity can be achieved with considerably less rate differentiation.

In regard to single point sales taxes there would

seem to be justification for three different rates of taxation. The first low rate of 2 or 3 per cent is for goods declared by the Central Sales Tax Act to be of special importance in inter-state commerce from the point of view of the country as a whole. If these specified raw materials are to be taxed at all, they should definitely be taxed at the low rate specified in the Central Sales Tax Act.[428] Likewise, any other raw materials that are taxed should be taxed at a low concessional rate. Next there is need for a basic rate which is to apply to the generality of goods and might be anywhere between 4 per cent and 8 per cent. Finally, in the Indian context there is justification for a higher rate on 'luxuries'. This rate should be the same as that on the fifteen specified 'luxury' commodities on which the States have agreed to levy similar single point rates. This rate on specified luxury commodities was first seven per cent, but has been raised to ten per cent in most States, and raised to eleven per cent or twelve per cent in some States. In addition, in those States which tax motor spirit and liquors under their general sales taxes, rather than under separate Acts, there is justification for the additional higher rates that exist in Madras, Mysore, Gujarat and a few other States.

The extensive differentiation of rates in many States appears to be an attempt to rank commodities according to the extent of their 'luxury' nature. The more of a luxury (or the less of a necessity) a commodity is felt to be, the higher is the rate of tax deemed appropriate. The Taxation Enquiry Commission lent some support to this procedure. Under the scheme proposed by them, all (or most) goods were to be subject to a low multi-point tax, while goods other than those entering the cost of living of the poor classes were to be subjected to an additional higher single point tax at the last stage of sale. They pointed out that: "The single point levy need not necessarily be uniform on all types of goods... some of the luxury articles can and should be subjected to higher *rates* of levy."[429]

In the developed countries, such as Canada and the United States, there has been a strong tendency in recent years to reject the taxation of luxuries[430] at higher than normal rates, essentially on the grounds that there are no objective grounds for delineating 'luxury' goods from 'non-luxury' goods and that in an 'affluent' society such a delineation becomes unnecessary or superfluous.[431] This line of argument was put most strongly by Henry Simons, who made a strong case for taxing tobacco and liquor at the general rate as well and doing away with rate differentiation relating to the supposed luxury nature of products.[432]

However, there is little doubt that India has not yet reached the point where a delineation between 'luxuries' and 'non-luxuries' is superfluous. Thus, it is difficult to question the justification for taxing 'luxuries' at a higher rate. But what can be questioned is both the desirability and feasibility of making such fine distinctions as are implicit in the extensive rate differentiation found in the sales tax system of most States, and especially of States like Andhra Pradesh, Madras and Mysore.

As an example it might be useful to list some of the commodities subject to single point tax in Mysore along with the rates that apply to each commodity:

Gold thread	(2½%);
Bricks and tiles	(3½%);
Kerosene	(4%);
X-Ray apparatus	(4½%);
Toddy	(5%);
Precious stones, coffee and tea	(5½%);
Cement, all machinery and parts thereof	(6½%);
Playing cards and sanitary fittings	(7½%).
Fireworks, aeroplanes and rail coaches	(8½%);
Radios and motor cars	(11%).

Such extensive rate differentiation seems to have very little justification and has only a rather rough correlation to the extent of 'luxuriousness' of the various commodities. Such extensive rate differentiation is

unnecessary in order to achieve a progressive sales tax system, and there is no other justification for it. As long as the single point tax is levied at the point of manufacture such extensive rate differentiation probably does not lead to greatly increased administrative and compliance problems. However, when such rate differentiation occurs in wholesale or retail sales taxes, administrative and compliance costs are bound to increase considerably. A dealer selling commodities taxed at five or six different rates will be greatly inconvenienced in keeping records and filling in sales tax forms. Similarly, consumers will be greatly inconvenienced in attempting to make sure that dealers have applied the correct rate of sales tax to each commodity they purchase.

In regard to rate differentiation the sales tax system of Punjab comes fairly close to achieving simplicity. Declared goods as defined in the Central Sales Tax Act are taxed at the rate of three per cent. Bullion and specie are taxed at the rate of 1/2 per cent, certain yarns at the rate of 1 per cent, foodgrains at the rate of 1½ per cent, and pesticides and milk products at the rate of 3 per cent. The general rate is six per cent, while most luxuries are taxed at the rate of ten per cent. A few luxuries are taxed at the rate of eight per cent. The reason given for taxing furniture other than iron and steel, sanitary goods and fittings, leather goods (not including footwear) and glass-ware and china-ware at the lower rate of 8 per cent is that all of these commodities are taxed in nearby Delhi at the rate of 7 per cent. Hence, it is felt that if Punjab were to levy a rate of 10 per cent on such items there would be a significant diversion of trade towards Delhi. Apparently, it is felt that a one per cent differential in the rates on such goods would not result in any significant diversion of trade. Punjab is reluctant to remove this anomaly in its sales tax rate structure unless Delhi can be talked into raising its rates on these commodities.[433] With this small exception, the

Punjab's practice of levying only one rate, in excess of the general rate, on 'luxury' goods is worthy of emulation by other States. Jammu and Kashmir also levies only one rate in excess of its general rate. However, all States levy a couple of rates below their general rate of sales tax.

As long as the products subject to the higher or lower rates are handled by a dealer who does not handle products sold at other rates, the levying of sales taxes at rates different from the general rate would not increase compliance or administrative costs significantly. However the objective of a progressive sales tax system can be achieved by the use of appropriate exemptions and about three rates of sales taxation. Rate differentiation beyond this is not only unnecessary, but positively harmful in that it increases the cost of compliance and administration and is likely to distort production and consumer choice in an arbitrary and undesirable manner.

The original sales tax legislation in most States provided for considerably less rate differentiation than exists today. There appears to be a very unfortunate tendency in India for sales tax systems to become increasingly irrational (or inefficient) over time. Just as exemptions have tended to become more plentiful and more specific, rate differentiation has tended to increase. In both instances the change seems to be a rather haphazard response to political pressures.

B. Rate Differentiation on the Basis of Price

In addition to introducing rate differentiation according to the commodity, a number of States have attempted to introduce rate differentiation in the case

of a single commodity according to its sale price. It might be useful to give a few specific instances of such rate differentiation according to the price of the commodity. Gujarat completely exempts footwear made by hand without using power at any stage, if they are sold at a price not exceeding Rs. 7 per pair. Footwear other than that exempted above, is taxed at the rate of 5 per cent if it is sold at a price of less than Rs. 18 per pair and is taxed at the rate of 10 per cent if it is sold at a price of not less than Rs. 18 per pair.[434]

The rate of sales taxation in Gujarat also varies according to the sale price of *sarees*. In this case the rate differentiation is even more complex. Decorated *sarees* sold at a price not exceeding Rs. 12 are subject to sales tax at the rate of 2 per cent; if the price is between Rs. 12 and Rs. 18, the rate of sales tax is 5 per cent; if the price is between Rs. 18 and Rs. 30, the rate of sales tax is 8 per cent; and if the price is in excess of Rs. 30, the rate of sales tax is 10 per cent. Similar rate differentiation exists for a number of other products in Gujarat, Maharashtra, and a few of the other States.

In general, rate differentiation on the basis of the price of a commodity should be avoided. Evasion is likely to be widespread, with dealers listing the product in question on their vouchers as being less costly or more inferior (than is actually the case). It inevitably increases compliance and administrative costs. The extent of these costs increases the closer one gets to the retail stage of taxation. If rate differentiation on the basis of price is to be introduced at all, it should be restricted to two rates, i.e. the general rate and the luxury rate. The use of four different rates for taxation of sarees in Gujarat results in unnecessary complications which would be largely removed if the 2 per cent and 8 per cent rates were abolished. However, the problem of excessive rate differentiation on the basis of the price of a commodity is part of the larger problem of excessive rate differentiation in general

and cannot be completely separated from the latter. In neither case is there justification for rate differentiation as extensive as that found in many of the sales tax systems in India.

It is also undesirable to introduce exemptions on the basis of the price of the products, as is done in many States because this too inevitably leads to evasive practices. The slight increase in progressivity is not worth the greatly increased administrative costs necessary to check the evasive practices emerging from this kind of exemption.

C. Sales Taxes Levied at Specific Rates

While almost all of the States levy their sales taxes at *ad valorem* rates, a few States make provision in their sales tax laws for the State Government to levy a specific duty by notification. However, this writer has come across only two instances in which sales taxes have actually been levied at specific rates. The first is the sales tax on tractors levied by Jammu and Kashmir and Punjab at the rate of one hundred rupees per tractor. The second is the purchase tax on sugarcane purchased by sugar mills, levied under a separate statute entitled the U.P. Sugarcane (Purchase Tax) Act, 1961, at the rate of fifty paise per quintal.[435]

In general it is undesirable to introduce specific rates into a sales tax system. This is especially true if the product so taxed is heterogenous in quality and is sold at different prices. For instance, the specific tax of Rs. 100 per tractor levied by Jammu and Kashmir, and Punjab discriminates against low priced tractors, as the specific tax will be a higher percentage of a low priced tractor than of a high priced tractor. Thus,

such a tax operates in a manner exactly opposite to that which is generally felt to be desirable (it places a lower *ad valorem* rate on the high priced item and a higher *ad valorem* rate on the low priced item). If any discrimination in rates, according to the price of the product, is to occur, it should be in favour of the low priced items. Hence, the sales tax on tractors levied by Jammu and Kashmir, and Punjab should be changed to an *ad valorem* rate basis.[436]

D. Sales Tax Coordination Among the States

In the late 1950's the State Governments agreed[437] to the suggestion of the Union Government that they levy more or less uniform rates on the following 'luxury' goods :[438]

1. Motor vehicles, including chassis of motor vehicles, motor tyres and tubes, spare parts and accessories of motor vehicles.
2. Motorcycles and cycle combinations, motor-scooters, motorettes and tyres and tubes, spare parts and accessories thereof;
3. Refrigerators and air-conditioning plants and component parts thereof;
4. Wireless reception instruments and apparatus, radios and radiograms, electrical valves, accumulators, amplifiers and loudspeakers and spare parts and accessories thereof;
5. Cinematographic equipment including cameras, projectors and sound recording and reproducing equipment, lenses, films and parts and accessories required for use therewith;
6. Photographic and other cameras and enlargers, lenses, films and plates, paper and cloth and

other parts and accessories required for use therewith;
7. All clocks, time-pieces and watches and parts thereof;
8. Iron and steel safes and almirahs.
9. All arms including rifles, revolvers, pistols and ammunition for the same;
10. Cigarette cases and lighters;
11. Dictaphones and other similar apparatus for recording sound and spare parts thereof;
12. Sound transmitting equipment including telephones and loudspeakers and spare parts thereof;
13. Typewriters, tabulating machines, calculating machines and duplicating machines and parts thereof;
14. Binoculars, telescopes and opera glasses;
15. Gramophones and component parts thereof and records.

The main purpose of the agreement was to eliminate (or greatly reduce) the diversity in tax rates among the States on these commodities and thereby to eliminate the incentive for consumers to purchase such items in other States merely to save on sales tax payments. Initially the rate levied on these items was seven per cent, later the rate was raised to 10 per cent. A few States have raised their rates of sales tax on these commodities even higher. Thus, Mysore now levies a rate of 11 per cent, and Kerala and Madras levy a rate of 12 per cent. Both Gujarat and Maharashtra tax most items on the list at 10 per cent, but have raised the rates on a few items to 11 or 12 per cent. Rajasthan has raised its rates on a number of these items to 12 per cent or 15 per cent. Madhya Pradesh, on the other hand, first raised its rate of tax on these commodities to 11 per cent and subsequently reduced it again to 10 per cent.[439]

Thus, in recent years there has been a tendency towards increased rate differentiation between the

States, as well as increased rate differentiation within State on various commodities in the list. The agreement among the States to tax these commodities at similar rates is of an entirely voluntary nature; any State is free to raise or lower the rates on any or all of these commodities at any time. In recent years the States' inability to agree to one rate of levy on these commodities has led them to be satisfied if the rate differential between the States is not more than about 2 per cent. It is obvious that if all incentives to unnecessary movement of trade and capital are to be eliminated then the rates of tax on such items must be uniform throughout the country. Furthermore, the greater is the rate differential between States on these commodities, the more incentive there will be for unnecessary movement of these goods to take place (this is especially true if the greater rate differential occurs between neighbouring States). With one exception, the rate differential between the States on these items does not exceed 2 per cent. However, even a 2 per cent rate differential on such expensive items as motor vehicles is sufficient incentive for a considerable amount of out-of-State buying to take place. If Rajasthan actually increases its rate on motor cars and refrigerators and air-conditioners to 15 per cent as proposed in its 1968-9 budget, there would then be a 5 per cent differential between Rajasthan and some of her neighbouring States. Such a great differential on such expensive items can be expected to lead to a considerable amount of out-of-State buying.

Actually the difficulty of eliminating the incentive for out-of-State buying of luxury items is much greater than has been indicated so far, for not only must the rates in different States be the same (or almost the same) but the point of levy of the tax must be the same as well. If the sales tax is levied on the manufacturer's price the final impact on the cost of the product to the consumer will be much less than if the same rate of sales tax is levied on the retailer's price. Unfortunately, the

States do not appear to have bothered about the point of levy when agreeing to tax these luxury items at similar rates. Hence, the apparent uniformity of rates levied by the States, may not be uniformity at all, to the extent that the tax is levied at different points in the various States.

The following States tax these special goods at the first point of sale by a manufacturer or importer: Andhra Pradesh, Assam, Jammu and Kashmir, Kerala, Madhya Pradesh, Madras, Mysore, and Uttar Pradesh. Gujarat and Maharashtra tax all of these special items at the first stage, with the exception of clocks and time-pieces and gramophones which are taxed at both the first point and the last point (last sale by a registered dealer). All of the special items are taxed at the last sale by a registered dealer (generally a wholesaler) in Bihar. The following States tax these special commodities at the retail stage: Delhi, Punjab, Rajasthan and West Bengal. In order for there to be uniformity in the effect of sales taxes on the retail price of luxury commodities it would be necessary for the States which levy the tax at the first point to levy the tax at a higher rate (of perhaps 2 per cent) than States that levy their tax at the last point.

Many States have taxed a number of additional commodities at the same rate as that levied on the 15 items on which agreement between the States had been reached.[440] Rajasthan now taxes an additional 15 items at this higher rate, while Assam, Bihar, Gujarat, Jammu and Kashmir, Madhya Pradesh, Maharashtra, Orissa, Punjab, and Uttar Pradesh have all taxed at least 7 additional items at their luxury rates of taxation. The various Regional Sales Tax Councils are now attempting to reach some agreement on expanding the list on which they will agree to levy approximately the same rates to more than the original 15 items. It would be desirable for all of the States to agree to some degree of uniformity in their rates on all of the following 16 commodities.[441]

1. Tyres and tubes
2. Thermosflasks
3. Iron and steel furniture
4. Upholstered furniture other than iron and steel furniture
5. Foam rubber cushions, pillows and similar items
6. Cutlery (table)
7. Glass-ware and china-ware
8. Stainless steel articles
9. Cosmetics
10. Domestic electrical appliances
11. Pile carpets
12. Sanitary goods and fittings
13. Fireworks
14. Perambulators
15. Adrema machines
16. Playing cards

E. Turnover Limits

Only registered dealers are liable to the government for payment of sales tax. The liability of a dealer is fixed on his turnover, the aggregate amount of the sale prices of his goods. All of the States require dealers to register only when a minimum turnover is exceeded.[442] However this minimum turnover limit varies considerably from State to State. In general, there are two distinct limits, one for importers and manufacturers and another for all other dealers. In most States the minimum turnover limit for importers and manufacturers is Rs. 5,000 or Rs. 10,000. This relatively low limit is intended to reduce the possibility of evasion. It is felt that unless the limit for registration is quite

low, the unregistered (non-taxpaying) importer would tend to spring up in large numbers to the detriment of the registered importer as well as to the revenues of the State. The limit for all other dealers varies considerably, ranging from Rs. 10,000 in Andhra Pradesh, Kerala, Madras, Mysore and Orissa to Rs. 50,000 in West Bengal. In some States, a dealer may elect to pay compounded rates if his turnover is above the minimum turnover and below a specified maximum turnover.

In many States there is no minimum turnover in regard to dealers registered under the Central Sales Tax Act. Some States[443] provide that a dealer registered under this Act and purchasing commodities in inter-state commerce at a concessional rate is liable to pay tax on the sale of such commodities irrespective of his turnover. On the other hand, some States[444] provide that a dealer registered under the Central Sales Tax Act is liable to pay tax *on all sales* irrespective of the quantum of his turnover. Many States also require all 'casual traders' to pay tax on all their sales, irrespective of their turnover.

In States in which there are both single point and multi-point sales tax systems, it has been recommended that in respect of the commodities for which a single point tax is levied the limit of minimum turnover for purposes of assessment should be removed and that all dealers in such commodities should be required to register themselves.[445] However the slightest reduction in evasion, which might accompany such a move is likely to be much surpassed by the increased complication and the cost of administration.

In considering the desirability of raising or lowering the exemption limit it is useful to get some idea of the number of assessees, and the tax collected from them, in various turnover brackets. It was found in Madras that, of the dealers assessed for tax, about 57 per cent reported turnovers between Rs. 10,000 and Rs. 25,000; 18 per cent had turnovers between Rs. 25,000 and Rs.

50,000; and the remaining 25 per cent had turnovers in excess of Rs. 50,000. In terms of tax collected, the first bracket and second bracket each provided about 7 per cent of the total, while dealers with turnovers in excess of Rs. 50,000 provided almost 86 per cent of the total tax collected.[446]

In Andhra Pradesh it was found that of the registered dealers about 25 per cent reported turnovers below Rs. 10,000; 32 per cent had turnovers between Rs. 10,000 and Rs. 25,000; 14 per cent had turnovers between Rs. 25,000 and Rs. 50,000; while the remaining 29 per cent had turnovers in excess of Rs. 50,000. In terms of tax collected, the first bracket provided 1 per cent of the total, the second and third brackets each paid about 4.5 per cent of the total, while dealers with turnover in excess of Rs. 50,000 provided 90 per cent of the total tax collected.[447]

In Orissa there was a similar pattern of assessees and tax collections. It was found that more than 70 per cent of the assessees had turnovers exceeding Rs. 20,000. They accounted for more than 95 per cent of the tax collected. Thus, less than 5 per cent of the revenue was derived from small dealers with turnovers of less than Rs. 20,000.[448] In Gujarat, 37 per cent of the registered dealers have a turnover of less than Rs 50,000. These dealers account for about 5 per cent of the total sales tax revenue. While less than 10 per cent of the registered dealers had a turnover in excess of Rs 500,000, they accounted for more than 65 per cent of the total sales tax revenue.[449]

Thus, in each of these States most of the tax collected comes from dealers with turnovers in excess of Rs. 50,000, while relatively little revenue is derived from the great majority of small assessees. Thus there appear to be strong administrative advantages in raising the minimum turnover limits in most States.

Small dealers constantly emphasise their difficulty in regard to the maintenance of accounts and compliance with the various provisions of the sales tax law.

The low turnover limit in Mysore has been criticized as follows:

> A great deal of time is wasted in checking accounts of these small dealers. On the other hand, small illiterate dealers are compelled to face a complicated law. A large number of small dealers and petty merchants are required to maintain accounts, (and) submit returns to the satisfaction of the assessing authorities which is generally not possible.[450]

Similarly, in Orissa in 1951 the turnover limit was raised from Rs. 5,000 to Rs. 10,000 as it was found that:

> A large number of small dealers incapable of maintaining the books of account required by law were being brought on to the register and were being harassed to some extent.[451]

However, it was still maintained that dealers with turnover ranging from Rs. 10,000 to Rs. 50,000 were experiencing great difficulty in regard to the maintenance of accounts and compliance with the various provisions of the law. The Government, however, felt that it could not forego the revenue loss that would accompany a further rise in the turnover limit. Instead it introduced a compound levy scheme to simplify accounts for the small dealers with turnover of not more than Rs. 25,000.

Two major solutions have been recommended with a view to reducing the compliance difficulties of the small dealer. One is to increase the minimum turnover limit. The second is to introduce the option of paying the tax at compound rates if the turnover is above the minimum, but below a specified maximum. In general, the States have been very reluctant to raise their minimum taxation limits and have relied primarily on the introduction of compounding privileges.

Mr. P.S. Lokanathan in his study of the Andhra Pradesh sales tax system, rejected the idea of raising the turnover limit because it would involve a loss of revenue. Although the loss would be modest, he felt that the Government could not afford to forego the revenue in view of the pressing needs for resources for financing the Plans. He points out that in periods

of rising prices the elasticity of the sales tax system would be reduced if the minimum taxable turnover were increased. Instead he recommended simplification of the procedures in the matter of maintenance and final settlement of accounts of small dealers with turnovers of less than Rs. 40,000. He felt that it would be adequate if dealers in this bracket maintain only purchase accounts. Moreover, he felt that in order to avoid harassment, it should be provided that the dealers should not be called upon to produce their accounts to corroborate the returns filed by them except where there is evidence of suppression.[452]

While the compounding system for relatively small dealers has been introduced in a number of States it does not appear to have been widely availed of by the small dealers who appear to be ignorant of the option or to prefer the off-chance of escaping the tax or paying a lower amount to the certainty of paying the compounded figure.[453] In Mysore, it was found that in practice detailed accounts continued to be required of dealers under the compounding system, thereby lessening the incentive for dealers to adopt the system.[454]

While the small dealers call for a raising of the minimum taxation limits, it has been pointed out that trade interests have in most cases stressed the need to reduce the taxable limit with a view to checking evasion and of eschewing unfair competition.[455] There can be no doubt that if the minimum taxable turnover limits are high there is strong incentive for dealers to try to split their turnover so as to escape taxation altogether.[456] Thus, most States find themselves in the quandary that it is very costly and time-consuming to tax small dealers, while raising the minimum taxation limits will provide increased incentives for evasion of taxation.

While it is widely felt that the small dealers' burden of keeping accounts should be lessened, this has not been achieved in practice. The very fact that the compounding system has not been widely adopted by

small dealers in those States where it has been introduced leads one to believe that the small dealers are not being effectively taxed at present. In brief, the compounding system will not be widely adopted by small dealers unless they feel that the possibilities of evasion have been largely eliminated by effective sales tax enforcement. Taking everything into consideration the States would probably be well advised to increase the minimum turnover limit to at least Rs. 25,000[457] and to concentrate their administrative resources on dealers in excess of this amount.

By differentiating among importers, manufacturers and other dealers, in regard to minimum taxable turnover limits, the sales tax laws of many States have created barriers to inter-state trade. A number of States provide a higher minimum taxable turnover on which sales tax is levied for a dealer who is dealing in goods produced within the State, and a lower limit for a dealer who is dealing in imported goods. Thus, in Delhi and Maharashtra the minimum turnover limit for an importer or manufacturer is Rs. 10,000, while for other dealers it is Rs. 30,000. Similar provisions exist in other States.[458] The reason for such provisions as stated in the *Report of the Taxation Enquiry Commission* is that:

> Unless the limit for registration was adequately low, the unregistered—and therefore non-taxpaying—importer would tend to spring up in large numbers to the detriment of the registered importer as well as of the revenues of the State.[459]

The Central Sales Tax Act seems to have done away with the validity of this reasoning. Under this Act these unregistered importers would have to pay tax on their purchases generally at the 10 per cent or higher rate; thus, there would not be much incentive for such importers to 'spring up' merely to evade the taxes of the importing State. Under the present legislation of many States, the lower limit for an unregistered dealer importing goods would discourage the

small dealer from importing goods from outside his own State.[460] There is no justification for such discrimination against small importers and it should be abolished.

While a lower limit for manufacturers than for other dealers does not result in any barrier to inter-state trade, it does not seem to have any real justification. The following justification was given by the Taxation Enquiry Commission:

> Where a large number of small manufacturers together account for a significant proportion of some taxable variety of goods, it is of obvious importance that along with the bigger manufacturers of the same kind of goods they too should be brought within the system of registration.[461]

While this may be true, the same logic would presumably apply to all other dealers as well; hence, it provides a justification not for a lower turnover limit to apply to manufacturers, but a lower turnover limit to apply to all dealers. However, as has already been pointed out, there are strong administrative arguments against attempting to lower the minimum taxable turnover limit in most States; indeed it should probably be raised in some States. But irrespective of the level at which the minimum taxable turnover limit is placed in any State, it would be desirable to make the limit apply to every dealer.[462] There is no justification for lower limits for importers or manufacturers.

It is sometimes argued that since the profit margins of importers and manufacturers are considerably higher than the profit margins for wholesalers or retailers, the minimum turnover limit for importers and manufacturers should be lower than for other dealers. In effect it is argued that any type of dealer (whether retailer, wholesaler, importer or manufacturer) generally should make a certain level of profit before being required to submit to sales taxation. While in general the profit margins of retailers are probably not very much less than the profit margins of manfacturers, there is no doubt that the profit margins of wholesalers

generally are considerably less than the profit margins of manufacturers. However, this is not a suitable justification for a higher minimum turnover limit for wholesalers. Turnover limits should not be related to the level of profits, but to the administrative capacity to enforce them, and the capacity on the part of the dealers to comply with sales tax procedures.

12. Purchase Taxes

In addition to a considerable variety of sales taxes levied by the States, a number of States levy purchase taxes on a few specific commodities. Just as the name implies, a purchase tax is paid by the purchaser, unlike a sales tax which is paid by the seller. However, the ultimate burden of the tax is likely to be the same whether the tax is levied on the seller or the purchaser. The two basic types of purchase taxes in use in India are the first point purchase tax and the last point purchase tax. *Both* types of purchase tax tend to be paid by middlemen or wholesalers. The first point purchase tax is levied on the first registered middleman to purchase the commodity from the producer. It is used only on agricultural commodities. The last point purchase tax, on the other hand, is levied on the last registered dealer to purchase the item within the State.[463] It is levied on some minerals and raw materials as well as on agricultural products.

There are three basic reasons for levying pruchase taxes : (i) it is administratively easier to tax agricultural products by means of a purchase tax; (ii) to tax commodities which are largely exported outside the State; (3) to lessen evasion from sales tax by rendering products subject to the sales tax, subject to purchase tax as well.

The use of purchase taxes is largely restricted to the State levying multi-point sales taxes. All the multi-point States levy at least a few purchase taxes.[464] The following States levy a purchase tax on at least eight commodities: Andhra Pradesh, Kerala, Mysore and Madras. However, the purchase tax is levied on four commodities in Bihar and on only three in Uttar Pradesh. On the other hand, the only single point State which levies a purchase tax on more than one

commodity is Orissa. Madhya Pradesh levies a purchase tax only on turmeric, Gujarat only on sugarcane and Rajasthan only on livestock.

The multi-point States levy the purchase tax almost entirely on agricultural products. The only exceptions are Kerala's purchase tax on prawns, lobsters and dried fish and Andhra Pradesh's purchase tax on manganese, iron ore and mica. There are very few products on which a number of States have found it desirable to levy a purchase tax. Five States levy a purchase tax on groundnuts and on raw hides and skins; four States levy a purchase tax on coconuts, turmeric and sugarcane; and three States levy a purchase tax on oil seeds, cotton and jute. There are no other products subject to purchase tax in more than two States.

The rate of purchase tax is generally between 2 and 5 per cent, although a couple of items are taxed at 1 per cent and sugarcane is taxed at 10 per cent in Gujarat and at 15 per cent in Mysore.

A. Incidence of the Purchase Tax

A number of States levy a purchase tax on rice at the point of first purchase in the State. It is contended that the single point tax at the point of first purchase generally places all incidence upon the producer.[465] Moreover, it is contended that:

> The explanation for the ability of the first purchaser to shift the purchase tax backwards to the agriculturist is to be sought not in the elasticity of demand for the commodity but in the whole milieu of the social and economic organisation in the rural areas of Andhra Pradesh. The demand for these commodities, which happen to be food and commercial crops, is rather inelastic. The agriculturalist could take the produce to the market and sell it at the prevailing

> market price, without bearing the burden of purchase tax. But he sells it on the spot in the village to brokers, middlemen, or agents of processors, who deduct the purchase tax from the price.[466]

Since land and agricultural income tends to be lightly taxed, it is argued, the purchase tax on rice is justified as an additional levy on the agriculturalist. Thus, it is felt that the argument that paddy and rice are necessities and, therefore, should not be taxed, is not justified because the tax is not added to the price paip by the consumer but is borne by the producer.

In an earlier section this writer has argued that there is a strong case for exemption of foodgrains (including rice) from sales taxation, on the grounds that in practice a tax on foodgrains is largely a tax on the urban sector. Implicit in this earlier argument was the assumption that the tax on rice was passed on to the final consumer. If the first point purchase tax on rice is really borne by the producer, then the earlier objection to the sales taxation of rice would be completely reversed and one would be forced to consider it a very desirable tax. It has been pointed out that the Indian tax system as a whole, and sales taxation in particular, place a relatively high burden on the urban sector. Thus, to the extent that a purchase tax on rice is borne by the cultivator, it would help to reduce the rural-urban tax inequity, and could be regarded as a supplement to taxation of land and agricultural income. However, Dr. Lokanathan's contention that the entire incidence of the tax is on the cultivator is unconvincing. One suspects that a considerable portion of the tax is passed forward to the ultimate consumer, and that a portion of the tax passed back to the producer may be borne by agricultural labour. Unfortunately, there is no empirical data on this question relating to who bears the ultimate burden of the purchase tax on agricultural products.[467]

B. Purchase Tax on Exports

One of the most undesirable aspects of the sales tax systems of many States is the levy of sales tax on goods exported outside India. It has been pointed out that in regard to some commodities which are exported outside India (e.g. palmyra fibre and mica) the foreign buyers are resisting the shifting of sales tax, with the result that both the volume of exports and profit margins are suffering a diminution.[468] In almost all instances, the levying of sales tax on commodities exported outside India, results in a reduction both in the quantity of exports and in the amount of foreign exchange derived from them.[469] Thus, it is very desirable that in the larger interests of the country commodities which are exported outside India and constitute a source of foreign exchange, be exempted from sales tax.

The States are prohibited under Article 286(1)(b) of the Constitution from levying a tax on the purchase or sale taking place in the course of import into, or export outside, the territory of India. However, the States are able to get around this provision by levying a purchase tax on the purchases by exporters. It would be desirable to get all the States to agree to exempt purchases and sales one or two stages prior to the sale for export.

However, such agreement is not likely to be forthcoming. It is very tempting for States to tax commodities exported outside the country, as such taxes tend to have very little political resistance and in some States provide a considerable amount of revenue.

Dr. P.S. Lokanathan has argued that the Central Government should encourage the States to abolish their purchase taxes on commodities which are largely exported outside the country, by making compensatory grants to replace the revenue foregone by the States.[470] This would seem to be a satisfactory solution to the impasse between State and Central interests with regard to sales or purchase taxation of exported products.

However, such a proposal has a number of drawbacks. First, there is the danger that the States may introduce sales or purchase taxes on commodities destined for export merely to receive compensatory grants from the Central Government. More importantly, such a procedure has the effect of rewarding most those States which have acted the least in the national interest. Those States which are presently acting in the national interest by refraining from levying purchase taxes (or levying lower rates) on commodities exported outside the country would receive little or no compensatory grants from the Central Government. On the other hand, those States which are presently ignoring the national interest in promoting exports, by levying purchase taxes on commodities destined for export would be the main beneficiaries of such compensatory grants from the Central Government. The justifiability of such perverse compensation is at best questionable. It would probably be better to seek an appropriate amendment to the Constitution, or an addition to the Central Sales Tax Act.

C. Purchase Tax Preceding Inter-State Commerce

In general, the purpose of the last point purchase tax is to derive revenue from goods exported outside the State (either to other States or to another country). Orissa is the State which makes the greatest use of a purchase tax for this purpose.[471] The Orissa Taxation Enquiry Committee had specifically recommended that:

> greater use be made of the provision of purchase tax in order to see that commodities the bulk of which are sent to markets and factories outside the State do pay tax to the State.[472]

Commodities exported to other States are liable to taxation under the Central Sales Tax Act. If the inter-state sale is between registered dealers the rate of tax may not exceed 3 per cent, but if the inter-state sale is to a non-registered dealer the rate of tax is 10 per cent or more. Most of the commodities that are taxed at the last point of purchase by Orissa and other States are commodities that are likely to be sold to registered dealers and thus to be taxed at the 3 per cent rate. Thus, the levy of the purchase tax at the last point on goods which are largely exported to other States, is an endeavour to gain revenue in addition to that received by the State under the Central Sales Tax Act. Hence the motivation behind the last point purchase tax on goods which are largely exported outside the State is the same as that underlying the taxation of intra-state sales between registered dealers preceding inter-state sales. Both provisions tend to thwart the intent of the Central Sales Tax Act to achieve some degree of uniformity in the incidence of taxation borne by commodities entering inter-state trade. To the extent that some States levy a purchase tax on intra-state sales of commodities destined for inter-state sale, while other States do not levy such a purchase tax, uniformity of tax incidence on commodities entering into inter-state trade is lost. It would be desirable to amend the Central Sales Tax Act so as to make the following provision in regard to 'declared goods' apply to all goods sold in inter-state commerce; that where a sales tax has been levied inside the State on any declared goods and such goods are sold in the course of inter-state commerce, the tax so levied shall be refunded.

It is also very desirable to do away with rate discrimination between products destined for domestic consumption and goods destined for consumption in other States. The tax on paddy in Andhra Pradesh is a good example of such discrimination. Paddy is subject to a first point purchase tax at the rate of five per cent in Andhra Pradesh. However, a rebate of two per cent

is allowed on the paddy purchased and consumed in the State.[473] While there is justification for taxing commodities which are sent to other States, there is no justification for taxing them at higher rates than if they were consumed within the exporting State and then subjecting them to the Central sales tax as well.

D. Purchase Tax as a Means of Checking Evasion

The purchase tax levied in Madhya Pradesh and Rajasthan is different in nature from that found in other States. No commodities are specifically liable to purchase tax rather than to sales tax in these two States.[474] Instead, all commodities that are subject to sales tax are subject to purchase tax if the sales tax is not paid on them in any of the following circumstances: a dealer who

> consumes such goods in the manufacture of other goods for sale or otherwise, or disposes of such goods in any manner other than by way of sale in the State, or dispatches them to a place outside the State except as a direct result of sale or purchase in the course of inter-state trade or commerce, shall be liable to pay tax on the purchase price of such goods at the same rate at which it would have been leviable on the sale price of such goods . . . .[475]

Thus, the purpose of the purchase tax in Madhya Pradesh and Rajasthan is not to replace the sales tax on certain items, but to reduce evasion of the sales tax by supplementing the sales tax in certain circumstances. The purchase tax serves a similar purpose in Gujarat[476] and Maharashtra.

It is questionable whether this supplementary type of purchase tax does very much to reduce evasion. If the desirability of exempting raw materials from sales taxation is accepted, this type of purchase tax is probably unnecessary.

Summary of Main Recommendations on Sales Taxation

Sales taxation in India has taken numerous forms, and generally has tended to become excessively complex. It has been argued in this study that there is a very good case for doing away with multiple point sales taxation in India. The major advantages of multi-point sales taxation relate to its general applicability and the absence of exemptions. However, in practice neither of these advantages obtain in India. Every State that levies a multi-point sales tax has found it necessary to tax many commodities at a single point and to introduce numerous exemptions. Moreover, the multi-point sales taxes do not in fact possess the administrative advantages claimed for them. They result in discrimination according to the number of transactions affecting any given product. Thus, they discriminate against those consumers with a relatively high preference for goods which pass through numerous transactions. The multi-point sales tax also discriminates against non-integrated firms and encourages vertical integration, irrespective of whether such integration is more efficient.

One of the most serious defects of sales tax systems in India is the haphazard and excessive rate differentiation. Some States levy sales taxes at as many as 15 different rates. Such excessive rate differentiation results in increased compliance and administrative costs. There is no benefit whatsoever to such extensive rate differentiation, since the desired progressivity can be achieved more easily and effectively with considerably less rate differentiation. There is no need for

more than three or four rates of sales taxation. Moreover, if raw materials and foodgrains are exempted (as recommended in this study) two rates of tax probably would be sufficient—a general rate and a luxury rate. But if raw materials are to be taxed at all they should be taxed at a low concessional rate.

The specific rate of sales taxation levied by a couple of States on tractors is undesirable because it discriminates against the cheaper type of tractors. If tractors are to be taxed at all, this specific rate should be replaced by an *ad valorem* rate.

Partially due to haphazard responses to political pressures, there has been a tendency for sales tax systems in India to become increasingly complex and irrational, with rate differentiation increasing and exemptions becoming more plentiful and more specific. While the number and types of exemptions differ considerably from State to State, there is a need for a considerable reduction in the number of exemptions in almost all States. *Ad hoc* exemptions for specific religious, charitable, social and economic institutions which it is deemed appropriate to encourage, greatly complicate administration of sales taxation. The generally insignificant benefits received by particular institutions are not worth the increased complexity and cost of administration which accompanies them. As recent experience in most States reveals, the existence of such exemptions almost inevitably results in political pressures for additional exemptions of a similar nature. Many of these exemptions merely serve to encourage (in effect to subsidize) inefficient forms of production. In any event, sales tax exemptions are not a suitable method of encouraging particular industries or firms. If it is deemed desirable to help such institutions it is preferable to do so by means of direct subsidies.

Raw materials and producer goods should be exempted from sales taxation except where there is a strong possibility of their being diverted to personal use. Not

only component parts, but industrial machinery and products dissipated in the process of production should be made exempt. It is desirable to have clear, precise lines of demarcation of taxable and exempt categories. Exemptions which are conditioned upon use complicate compliance and enforcement, and should be avoided. Outright exemption by category of goods, regardless of the nature of the purchaser in particular instances is preferable. Similarly, exemption or rate differentiation according to the price of a commodity generally is undesirable as it complicates compliance and administration, and opens the way for evasion.

Foodgrains, charcoal and firewood (and any other products which it is administratively impossible to tax in rural areas) should be exempt from sales taxation in order to promote rural-urban equity (or at least not to enhance further the relative burden of the urban sector).

In order to widen the base and to increase the neutrality and progressiveness of the sales tax systems, it is desirable to give serious consideration to the taxation of services. To start with sales taxes might be placed on the cost of hotel rooms, dry cleaning service and various repair services.

The minimum taxable turnover limit should be raised to at least Rs. 25,000 in all States. Furthermore, a single minimum turnover limit should apply to all dealers, including importers and manufacturers.

While there are Constitutional provisions preventing States from taxing the actual sale that occasions the export of a product outside India, many States tax the sale by a manufacturer to an exporter of a product destined for export, as well as other sales of the product preceding the actual export sale. In light of the extreme importance of increasing exports, it is desirable to eliminate the sales tax burden on exports as far as possible. Either a refund should be given to the exporter for the amount of sales tax borne by a product that is exported, or sales one or two stages prior

to the export sale should be exempted from sales tax. Sales by manufacturers to exporters should definitely be exempted.

In general, the problem of taxation of inter-state sales has been solved more satisfactorily in India than in other federations such as Canada and the United States. The Central Sales Tax Act has made it possible to effectively tax inter-state sales. However, a number of serious problems remain. It has been suggested that the rate of tax on sales to registered dealers should be reduced from three to one per cent, or be completely eliminated, so as to reduce the present incentive to set up branches in order to avoid Central sales taxation. The present basis for taxing inter-state sales to unregistered dealers and consumers is irrational and frequently results in purely tax-induced out-of-state purchases, on the one hand, and an undesirable hindrance of out-of-state sales on the other hand.

While the States' agreement to tax 15 special luxury commodities at similar rates has largely eliminated the incentive to purchase such goods out-of-state, it would be desirable to extend the list of commodities on which States agree to levy similar rates of sales tax. The recent setting-up of four Regional Sales Tax Councils appears likely to lead to an increase in uniformity of rates on additional goods, on which differential rates between States presently provide an incentive for out-of-state purchases.

APPENDIX

A. State Excise Taxation

The Indian Constitution places excises on alcoholic liquors and narcotics within the jurisdiction of the States. The Central Government's power to levy excise duties applies to all goods except liquor and narcotics. A couple of States had already adopted a policy of prohibition before the Constitution was adopted, and some of these States have continued such a policy. However, the vast majority of States raise a considerable amount of revenue through their excise duty on liquors.

India is, perhaps, the only country in which prohibition remains very much a live issue. Since Independence a number of committees have been appointed by both the Central and State Governments to look into the issue of prohibition.

While in most countries it has been principally considerations of revenue that have influenced public policy in the levying of excise duties on liquors, in India it is widely asserted that excise duties have been levied more with a view to restricting consumption of intoxicants than to raising revenues. The Government of India in their Resolution No. 5001-Excise, dated 7th September 1905 described the general lines of their excise policy as follows:

> The Government of India have no desire to interfere with the habits of those who use alcohol in moderation and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy however is to minimize temptation to those who do not drink and to discourage excess among those who do, and to a furtherance of this policy, all considerations of revenue must be absolutely subordinated. The most effective method of furthering

> this policy is to make the tax on liquor as high as it is possible to raise it without stimulating illicit consumption to a degree, which would increase instead of diminishing the total consumption and without driving people to substitute deleterious drugs for alcohol, or a more or less harmful form of liquor. Subject to the same consideration, the number of liquor shops should be restricted as far as possible and their location should be periodically subject to strict examination with a view to minimizing the temptation to drink and to conform as far as is reasonable to public opinion.[467a]

However, after 1921 the policy changed gradually from one of regulation and of discouraging the use of alcoholic drinks in excess, to one of minimizing consumption. Under the Constitutional Reforms Act of 1919, the excise duty on intoxicating drinks and drugs was made a provinicial subject. Soon, thereafter, resolutions declaring that prohibition was the ultimate goal of excise policy were passed by several Provincial legislatures. The prohibition policy of the period between 1921 and 1937 is well summarized by the Taxation Enquiry Commission as follows:

> . . . several State Governments took measures to minimize the consumption of alcoholic drinks by the enforcement of stricter controls over the manufacture and distribution of intoxicating liquors, by raising excise duties, auction bids, license fees, etc. and by imposing heavy penalties on illicit distillation. . . . It cannot be said, however, that these steps led to any appreciable curtailment of consumption or loss of revenue.[477]

In fact, the attempt to restrict consumption of alcoholic beverages by means of high rates of excise duty has produced a very significant amount of revenue. By 1937, State excises produced Rs.13.91 crores in revenue.[478]

It should also be mentioned that in 1920, prohibition received the support of the Congress Party, and that after 1925 it received the active support of Gandhi. It came to be regarded as one of the four most important items of the constructive programme. In 1930, Gandhiji assigned it first place in his famous eleven points.[478]

With the inauguration of Provinicial Autonomy in 1937 several Congress Ministers came into power and

declared their policy to be that of complete prohibition. Madras and Bombay started implementation of the policy. However, when World War II broke out, the Congress Ministers resigned and the policy of prohibition was discarded.

Prohibition was included in one of the 'Directive Principles of State Policy' set forth in the Constitution (1950). Article 47 of the Constitution directs that the States "shall endeavour to bring about prohibition of consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health. Considerable debate has centred around the question as to whether the Directive is of such character as to require the States to attempt to implement it. Some have expressed the opinion that Article 47 makes it obligatory for every State to make laws to bring about prohibition.[480] Actually it seems more correct to regard Directive Principles including Article 47 as stating desirable objectives rather than making it obligatory to achieve or even attempt to achieve such objectives.[481]

In practice, the various States of India have adopted a wide variety of policies in regard to prohibition. In its Report written in 1964 the Study Team on Prohibition classified the States according to the percentage of population living in prohibition areas as follows :

I. Completely Dry States :
Madras, Gujarat and Maharashtra

II. Partially Dry States :
Andhra Pradesh, Assam, Kerala, Madhya Pradesh, Mysore and Orissa

III. Wet States :
Bihar, Jammu & Kashmir, Punjab, Rajasthan, Uttar Pradesh, West Bengal and Delhi.

Since the report was written there has been a further movement away from prohibition. Kerala, Madhya

Pradesh and Mysore have almostly completely scrapped prohibition, and can now be classified among the wet States.[482] Maharashtra has liberalized its prohibition regulations and perhaps should no longer be considered a completely dry State, and Andhra Pradesh has liberalized its prohibition policy.

Hence, at present only Madras and Gujarat have a complete prohibition policy, and only Andhra Pradesh, Assam, Maharashtra and Orissa have a partial prohibition policy. The rest of the States have either no prohibition or merely token prohibition.

The Taxation Enquiry Commission was unable to make any recommendations on State excise policy because of an equal division of opinion among the members. Three members were of the opinion that the Constitutional Directive in regard to prohibition should be implemented as early as possible and that an all-India time-limit should be agreed upon within which all States should introduce complete prohibition.[483] They felt that the aim of reducing consumption had been subordinated to the aim of raising revenue and that the former was far more important. The other three members of the Commission emphasized that prohibition was only one of many important Directives of the Constitution and the pace of implementation of prohibition should be considered in light of other priorities. Moreover, since the administrative resources and revenue resilience of the various States differ considerably, these members felt that the pace of implementation of prohibition should be left to the individual States.

The Central Government, especially the Planning Commission, has been a strong advocate of prohibition, while the States, in general, have been reluctant to adopt anything more than partial prohibition, either because they feel that they cannot enforce prohibition adequately or because they feel they cannot forego the revenue, or both.

The reports of various State Commissions appointed

to look into the operation of prohibition in their respective States have generally concluded that prohibition had been a failure.

The Planning Commission appointed a Prohibition Enquiry Committee on the 16th December, 1954 with the object of formulating a national programme of prohibition in pursuance of Article 47 of the Constitution. The primary emphasis of the Report was on the feasibility of having a nation-wide prohibition programme, and on various beneficial, economic and social effects that resulted from the policy of prohibition in those States where it had been operative. While recognizing some difficulties in the working of prohibition, the Committee concluded that "we are of definite opinion that prohibition is not only a sound policy but also a practical proposition."[484]

The Committee recommended that prohibition should be regarded as an integral part of the Second Five-Year Plan and "that the target date for completing nation-wide prohibition should be 1st April, 1958." In general, the analysis of the Report was over-simplified, unrealistic and didactic.[485]

B. The Report of the Prohibition Enquiry Committee

The Report of the Prohibition Enquiry Committee was approved by the National Development Council in January 1956. In March 1956, the Lok Sabha passed a Resolution which expressed its support for making prohibition an integral part of the Second Five-Year Plan. In pursuance of this resolution a number of recommendations were made in the Second Five-Year Plan. A list of steps that should be taken was given,

which included:

(1) progressive reduction in the number of liquor shops;
(2) closing the liquor shops for an increasing number of days in the week;
(3) reduction in quantities supplied to liquor shops;
(4) progressive reduction in strength of liquor·
(5) closing of shops in and near specified industrial and other development project areas;
(6) removal of shops to places away from the main streets and living quarters in towns and villages;
(7) taking active steps to encourage and promote the production of cheap and healthy soft drinks;
(8) assistance to voluntary agencies in organizing recreation centres; and
(9) inclusion of prohibition as an item of constructive work in community development areas and in social welfare extension projects.[486]

The Second Five-Year Plan did not specify any target date for completion of prohibition, but requested the State Governments "to ensure that the programme for implementing the policy of prohibition is drawn up with a view to completing it within a reasonable time."[487] During the Second Plan period there was very little progress in the desired direction. Nevertheless, it was stated in the Third Five-Year Plan that the "various measures recommended in the Second Plan constitute a limited but practical programme which should be implemented in the course of the next two or three years."[488]

Unlike the Committees appointed by the Planning Commission to study prohibition, the Committees appointed by the various State Governments have regarded prohibition as a failure. In answer to the question as to whether the policy of prohibition had succeeded, the Madhya Pradesh Prohibition Enquiry Committee (1951), stated that:

> we are positively of the opinion that it has not succeeded. There has been no elimination of the drink evil and if there

> is reduction it is not appreciable. A few casual drinkers appear to have given up drink and the drunken brawls in the streets are now rarer, but we believe that the evil has gone underground . . . The prohibition has opened a hideous underground where flourish secret drinking, black marketing, profiteering and boot-legging on an enormous scale. These derivative evils far outweigh the trifling gain indicated above . . .[489]

Commenting in a similar vein, the Prohibition Enquiry Committee of the Andhra Pradesh Government, in its Report published in 1954, gave the opinion that the policy of prohibition had completely failed in the State and it recommended that it be scrapped.[490]

The Mysore Resources and Economy Committee also found that the generality of opinion of the people in the State was that prohibition had been more or less a failure.[491] The Orissa Taxation Enquiry Committee reported a similar finding.[492] The last two Committees were not primarily concerned with prohibition and refrained from making any significant recommendations. While both the Andhra Pradesh and Madhya Pradesh Prohibition Committees declared prohibition to be a failure, they were also critical of the excise policy of the the past and did not recommend a return to the status quo ante. They were primarily concerned with the widespread use of illicit liquor and recommended a policy of provision of rationed quantities of licit liquor at prices low enough to compete successfully with illicit liquor and eliminate it. Thus, they advocated a sharp reduction in rates of excise and, consequently, of excise revenue.

In April 1963 a study team was appointed by the Planning Commission to look into the working of prohibition and suggest how it might be better implemented and illicit distillation reduced. In 1964, the study team submitted its report in two lengthy volumes. Much of the report contains nothing but one-sided didactic nonsense. Many pages are given quoting famous people (from Xenophon to Hubert Opperman—cyclist) condemning drinks. There is

hardly a hint in the entire report of any desirable aspect to drinking, much less any quotation praising drinking. Similarly, only medical and religious opinion condemning drinks is expressed. It is contended that "the fate of many a skirmish or a battle would have been entirely different if liquor had not entered the lists."[493] The turning point of World War I is attributed to the Germans' lack of resistance to French wines.[494] The failure of prohibition in America is attributed to inadequate implementation, faulty legislation and the fact that Coolidge entrusted the enforcement to Andrew Mellon, who was an "ex-brewer and friend of distillers."[495] Much of the report contains nothing but sanctimonious propaganda against liquor.

The Report, however, does present a detailed picture of the pervasiveness of illicit distillation. It estimates the profits of illicit distillation in wet areas to be between 200 and 1,000 per cent.[496] It also estimates that more than a third of the money spent for liquor in the country, was spent on illicit liquor,[497] and that illicit distillation on the average was approximately three to four times as intense in dry areas as in wet ones.[498]

The Committee did not refrain from portraying the pernicious influence of prohibition on the people and the administration. In fact they "are tempted to speak of illicit distillation as enemy number one of society."[499] Basically, their reaction to the pervasive illicit distillation is to call for more vigilant enforcement police administrators and a more cooperative and enlightened public. They advocate an intensive education campaign and massive publicity. In brief, they advocate that "a relentless and ruthless exposure of the liquor evil should be pursued with vigour and determination."[500] They call upon the press to constantly impress upon the public the virtues of sobriety.

The Committee also proposed strong-arm methods to eliminate illicit liquor. These included: Summary trial of those charged with prohibition offences, which would be declared non-bailable; compulsory sentences

for habitual offenders; shifting the onus of proof on to the accused; forfeiture of property; and, disqualification from elections and government service. In brief, it recommended the perverting of legal ethics and procedures in the realm of prohibition offences. The Study Team realized that immediate prohibition was not feasible and recommended a phased programme of gradual reduction in the strength of liquor until complete prohibition was achieved in twelve years as an outside limit.[501] However, they expressed the wish that complete prohibition be achieved by January 30, 1970, on which date the birth centenary celebrations of Mahatma Gandhi are going to conclude.[502]

In light of the pervasiveness of sanctimonious propaganda in the Report, it is not surprising that it was widely lampooned in the press and largely ignored by the States. One cannot help feeling that the emphasis placed by the Central Government upon the policy of prohibition is misdirected. The simple fact is that drinking is less of a problem in India than in most other countries. It is interesting how in a country the overwhelming majority of whose population is just not interested in liquor, drinking has been blown up into a national problem by the prohibition-addicts. Drinking in India appears to be largely confined to the well-educated, semi-westernized group on the one hand and to miners, urban workers and plantation labour on the other hand. While drinking among the latter is a serious social problem, it seems quite insignificant in the context of India's other problems. Leaving the moral issue aside, the simple fact is that prohibition is impractical in India both from the financial and administrative points of view.

C. Revenue Significance of State Excise Duties

Since the beginning of the First Five-Year Plan, revenue from State excise duties has increased considerably in absolute terms, but has decreased considerably in relative terms. In 1951-2 State excise yielded a revenue of Rs. 49.4 crores. This accounted for about 21.6 per cent of all State tax revenues.[503] Until 1959-60, the revenue from State excises remained more or less constant in absolute terms (it was Rs. 49.6 crores in 1959-60). However, during this period revenue from the other State taxes had increased substantially, so that in 1959-60 State excise accounted for 12.2 per cent of all State tax revenues.

Since 1959-60, there has been a substantial and continuous increase in State excise revenue. By 1967-8 it had more than doubled to Rs. 114.9 crores.[504] However, in relative terms the position of State excise in the total tax system of the States has remained about the same. In 1967-68 State excise revenues accounted for about 11.5 per cent of all State tax revenues. If there is no marked change in the prohibition policy of the States one would expect State excise revenue to continue to increase in absolute terms and to retain its present position in the State tax systems in relative terms.

However, in considering the feasibility of introducing prohibition to additional States in India, it is useful to get some idea of the importance of excise duties in those States which have not yet adopted a policy of prohibition. If the prohibition States of Gujarat and Madras, and the near prohibition State of Maharashtra are excluded from our analysis, the relative importance of State excise revenue in the remaining States can be seen more clearly. State excises account for almost 17 per cent of the total State tax revenue of the remaining 'non-prohibition' States.[505] Thus, on revenue grounds it seems unlikely that these States will be able or willing

to forego the use of State excise duties in the near future. With the exception of the general sales tax, State excise duties yield more revenue than any other State tax.[506]

A policy of total prohibition would result in a loss of over Rs. 100 crores in excise revenue and would require additional heavy expenditure for its enforcement. Anything close to total prohibition in India, where every palm tree is a ready source of alcohol, would probably require a standing army. However, it should also be admitted, that even if prohibition is completely scrapped, it would be desirable to stiffen the penalties for prohibition offences and improve enforcement against illicit distillation, which is bound to continue on a significant scale as long as there are substantial excise duties on licit liquor.

D. Excise on Opium

The opium policy decided upon by the Geneva Convention was supported by the Indian Government. Under the Resolution of the All-India Opium Conference, 1949, the consumption of opium, was reduced by 10 per cent of the basic quota every year, for ten years, until it was completely prohibited in 1959, except for medicinal and scientific purposes.

Notes

[1]Joseph A. Pechman, 'A Summing Up', *Report of Proceedings of the Nineteenth Tax Conference* (Canadian Tax Foundation, Toronto, Canada, 1967) p. 438

[2]In the developed countries on the other hand, there is an increasing tendency to give primary importance to equity and neutrality. This tendency is perhaps most clearly evident in the recent Report of the Royal Commission On Taxation in Canada; see 'Excerpts from Report of Royal Commission On Taxation', *Canadian Tax Journal*, Volume 15, No. 2 (March-April, 1967) pp. 81-3, 112

[3]See Appendix Table No. A-1 for details on the revenue from all of the Union taxes

[4]All of the figures given in this section for the year 1968-9 are budget estimates

[5]In 1945-6, the revenue from the Corporation tax was Rs 94.18 crores. After the war the revenue from this source was considerably lower and the 1945-6 revenue yield was not surpassed till 1959-60.

[6]The term 'direct taxes' is used to refer to the following taxes : personal income tax, corporation income tax, estate duty, gift tax, and wealth tax

[7]For a comparison of the relative importance of these taxes in various African countries, see John F. Due, *Taxation and Economic Development in Tropical Africa*, (The M.I.T. Press, Cambridge, Massachusetts, 1963), p. 84; for the same comparison in Latin American countries, see Rajanikant Desai, 'Fiscal Capacity of Developing Economies' in *Fiscal Policy for Economic Growth in Latin America*, (The John Hopkins Press, Baltimore, Maryland, 1965), p. 50

[8]Derived from Appendix Table A-2

[9]John Maynard Keynes, *The General Theory of Employment, Interest and Money*, (Harcourt Brace and Company, Inc, New York, 1936), pp. 347-8

[10]M.H. Gopal, *Studies in Indian Public Finance* (Rao and Raghavan, Mysore, 1963) p. 90; R.J. Chelliah, 'Fiscal Policy Must be Reoriented', *Economic and Political Weekly*, Vol. 2 (May 20, 1967) p. 919; I.S. Gulati, 'The Problem', *Seminar*, Vol. 43 (March 1963), p. 12

[11]There are a number of conceptual problems in delimiting Government investment or 'developmental' expenditure from Government consumption or 'non-developmental' expenditure. The definition of Government consumption adopted in the economic classification of the Budget is not entirely satisfactory. There is a good case for considering items like expenditure on construction of luxurious administrative office buildings, monuments, etc. as Government consumption. In considering the desirability of increased taxation it is necessary to have some idea of how much of this increase in tax revenue can be expected to result in increased 'developmental' expenditure.

[12]*Principles of Political Economy* (Longmans, Green and Co. London, 1883), pp. 495-6

[13]Antonio, de Viti de Marco, *First Principles of Public Finance,* (Harcourt Brace and Company Inc. New York, 1936), pp. 129-140

[14]Kenyon ,E. Poole, 'The Fiscal Performance of Indirect Taxation: An Evaluation' John R. Allan and Irving J. Goffman (Eds.) *Queen's University Papers in Taxation and Public Finance, No.* 3 (Canadian Tax Foundation, Toronto, 1966) p. 20

[15]Ursula, K. Hicks, 'The Terminology of Tax Analysis', in AEA *Readings in the Economics of Taxation,* (Richard D. Irwin Inc. Homewood, Illinois, 1959), p. 214

[16]See, *The Role of Direct and Indirect Taxes in the Federal Revenue System*: (Princeton University Press, Princeton, 1964) : John Due, p. 3; E. Cary Brown, p. 70; Richard A. Musgrave and Peggy Brewer Richman, p. 81; Fritz Neumark, p. 286

[17]More accurately, there is no controversy that "sales taxes and excise and import duties are indirect. Export taxes, on the other hand, are occasionally regarded as direct taxes. Cf. Jose Maria Naharro, 'Production and Consumption Taxes and Economic Development', in *Fiscal Policy For Economic Growth in Latin America* (The John Hopkins Press, Baltimore, Maryland, 1965), pp. 273-325

[18]John. F. Due, *Sales Taxation* (University of Illinois Press, Urbana, 1957), p. 3

[19]In order to avoid confusion it might be desirable to mention the system of classification developed by Haig and Shoup which gives a different interpretation to the term 'general sales tax'. Their classification provides the following four types of sales taxes :

(1) *Retail sales tax*—imposed upon the sales of tangible personal property at retail
(2) *General sales tax*—in addition to retail sales, applies to wholesaling, extractive, and manufacturing industries
(3) *Gross receipts tax*—in addition to the above, includes personal and professional services
(4) *Gross income tax*—in addition to transactions of the above three types, includes receipts from non-business activities as wages and salaries. See, *The Sales Tax in the American States* (Columbia University Press, New York, 1934), pp. 3-4

The more common usage of the term 'general sales tax', as referring to widespread coverage of *commodities,* rather than coverage of all *stages* of production and distribution, will be used in this study

[20]Either specific or *ad valorem* rates can be employed with an excise tax, but only *ad valorem* rates are employed with a general sales tax. However, some economists regard specific commodity taxes as excise duties and *ad valorem* commodity taxes as sales taxes—they make this the primary distinguishing characteristic between the two types of taxes. See Hugo A. De Marco Erviti, comments on 'Administrative Criteria in the Establishment of Sales and Excise Tax Structure' in *Problems of Tax Administration in Latin America,* (The John Hopkins Press, Baltimore, Maryland 1965) p. 7439

[21]*State Retail Sales Taxation* (Bureau of Business Research, State University of Ohio, Columbus, 1957), p. 4

[22]Such as most of the State retail sales taxes in the United States

[23]In India they are called 'multi-point' sales taxes

[24]This type of tax is used by Canada

[25]The sales taxes of Switzerland, Australia and New Zealand, Pakistan and the British purchase tax take this form

[26]The retail sales tax is employed by the Canadian Provinces and the States of the United States

[27]By now it should be apparent that there is no clear conceptual distinction between excise duties and sales taxes

[28]John F. Due, *Taxation and Economic Development in Tropical Africa*, (Harvard University Press, Cambridge, 1963), p. 156

[29]This is usually referred to as the 'income effect'

[30]This is usually referred to as the 'substitution effect'

[31]A.C. Pigov, *A Study in Public Finance*, Third (revised) edition. (Macmillan and Co. Ltd. London, 1952), pp. 69-71.

[32]Thomas H. Sanders, *Effects of Taxation on Executives*, (Bureau of Business Research, Harvard University, Boston, 1951); Clarence D. Long 'Impact of the Federal Income Tax on Labour Force Participation', in U.S. Congress, Joint Committee on the Economic Report, *Federal Tax Policy for Economic Growth and Stability*, 84th Congress, 1st session (U.S. Government Printing Office, Washington D.C., 1955), pp. 153-166; George F. Break, 'Income Taxes and Incentives to Work: An Empirical Study', *American Economic Review*, Vol. 47, No.4, September 1957

[33]Richard A. Musgrave, 'Excises in the Federal Tax Structure—A General Appraisal', in Committee on Ways and Means, *Excise Tax Compendium*, (U.S. Government Printing Office, Washington, 1964), p. 16

[34]M.F.W. Joseph, 'The Excess Burden of Indirect Taxation', *Review of Economic Studies*, Vol. 6, No. 3. (June 1939) pp. 226-31

[35]H.P. Wald, 'The Classical Indictment of Indirect Taxation', *Quarterly Journal of Economics*, Vol. 59 (August 1945), pp. 582-91

[36]Harold Hotelling, 'The Relation of Prices to Marginal Costs in an Optimum System', *Econometrica*, Vol. 7 (1939), pp. 154-5

[37]A.M. Henderson, 'The Case for Indirect Taxation', *Economic Journal*, Vol. 58, (December 1948), pp. 538-57.

[38]I.M.D. Little, 'Direct versus Indirect Taxes', *Economic Journal*, Vol. 61, (September 1951), pp. 577-84

[39]*Ibid.* p. 584; Richard A. Musgrave feels that this notion is stated better in terms of possible substitution rather than elasticity. See *The Theory of Public Finance* (McGraw-Hill Book Company, New York, 1959), pp. 145-48

[40]E.R. Rolph and G.F. Break, 'The Welfare Aspects of Excise Taxes', *Journal of Political Economy*, Vol. 57, (February 1949), pp. 46-54, reprinted in the American Economic Association's *Readings in the Economics of Taxation*, (Richard D. Irwin, Homewood, Illinois, 1959), pp. 110-22 (especially pp. 116-17)

[41]Richard D. Musgrave and Peggy Brewer Richman, 'Allocation Aspects, Domestic and International' in *The Role of Direct and Indirect Taxes in the Federal Revenue System*, (Princeton University Press, Princeton, 1964), p. 86

[42]Richard A. Musgrave, *The Theory of Public Finance*, (McGraw-Hill Book Company, New York, 1959), p. 147

[43]*Ibid.* pp. 148-9

[44]Assuming perfect competition or 'ideal initial conditions'

[45]*Ibid.* p. 157

[46]'Production and Consumption Taxes and Economic Development', in *Fiscal Policy for Economic Growth in Latin America,* (John Hopkins Press, Baltimore, Maryland, 1965), p. 286

[47]'The Direct-Indirect Tax Problem: Fifteen Years of Controversy', *Public Finance,* Vol. 10 (November 1955), p. 173

[48]*op. cit.* p. 173

[49]*An Inquiry into the Nature and Causes of the Wealth of Nations,* The Modern Library edition (Random House, Inc., New York, 1937), p. 777

[50]Gerhard Colm, *Essays In Public Finance and Fiscal Policy,* (Oxford University Press, New York, 1955), p. 57

[51]'Rates, Allowances and Averaging', *Report of Proceedings of the Nineteenth Tax Conference* (Canadian Tax Foundation, Toronto, Canada, 1967), p. 25

[52]Intergeneration equity is rarely explicitly discussed by economists except in connection with the burden of the public debt. A good example of discussion of intergeneration equity in this context can be found in Richard A. Musgrave *The Theory of Public Finance* (McGraw-Hill Book Company, New York, 1959), pp. 562-5, 571

[53]R.N. Bhargava, *Indian Public Finances,* (George Allen & Unwin Ltd. London, 1962), pp. 18-19

[54]Almost all economists concerned with economic development seem to feel that the rate of savings and investment in underdeveloped countries is always too low and never too high. They rarely, if ever, reflect on whether they might have an implicit preference for the future generation over the present generation.

[55](Vora & Co. Publishers Private Ltd. Bombay, 1967), p. 328

[56]'Expansion of Tax Revenues', in *Papers Relating to the Formulation of the Second Five Year Plan* (Government of India, Planning Commission, 1955), p. 502

[57]'Taxation of Saving and Consumption in Underdeveloped Countries', *National Tax Journal,* Vol. 14 (December 1961), p. 316

[58]Harold M. Groves, *Financing Government,* (Henry Holt and Co. New York, 1954), p. 248

[59]James W. McGrew, 'Effect of a Food Exemption on the Incidence of a Retail Sales Tax', *National Tax Journal,* (December, 1949), pp. 364-69; Reed R. Hansen, 'An Empirical Analysis of the Retail Sales Tax with Policy Recommendations', *National Tax Journal,* Vol. 15, (March 1962), pp. 1-13; David G. Davies, 'An Empirical Test of Sales Tax Regressivity', *Journal of Political Economy,* (February 1959), pp. 72-8.

[60]John F. Due, *The General Manufacturers' Sales Tax in Canada* (Canadian Tax Foundation, Toronto, 1961), p. 142; Irving J. Goffman, *The Burden of Canadian Taxation,* Canadian Tax Paper No. 29. (Canadian Tax Foundation, Toronto, 1962)

[61]*The Theory of Economic Growth,* (Richard D. Irwin *Inc.* Homewood, Illinois, 1955), p. 403

[62]United Nations Economic Commission for Latin America, *Economic Survey of Latin America,* 1955 (United Nations, New York, 1956), p. 139

[63]Richard Goode, 'Taxation of Savings and Consumption in Underdeveloped Countries,' *National Tax Journal,* Vol. 14, (December 1961) p. 316

[64]The few studies that have been undertaken in regard to the distribution of the burden of commodity taxes in underdeveloped countries have all indicated that they are mildly progressive with respect to income upto a fairly high level. This was the finding of the following studies on El Salvador and Guatemala: Henry C. Wallih and John H. Adler, *Public Finance in a Developing Country* (Harvard University Press, Cambridge, Massachusetts, 1951), pp. 132-3 and John H. Adler, E.R. Schlesinger and E.C. Olson, *Public Finance and Economic Development in Guatemala* (Stanford University Press, Stanford, 1952), p. 138: See also the section in this study on the 'Shifting and Incidence of Commodity Taxes' which summarizes the findings that in India the consumption taxes are progressive with respect to consumption expenditures over the entire range of consumption expenditures.

[65]This is especially the case in Latin America where in 1954 these two taxes alone (liquor and tobacco) accounted for 90 per cent of the consumption taxes in Venezuela, 77 per cent in Argentina, and 46 per cent in Brazil. (*Economic Survey of Latin America*, 1955), *op. cit.* p. 139. These two taxes accounted for about 58 per cent of the total internal indirect taxes in Panama in 1961. (Joint Tax Program OAS/IDB, *Fiscal Survey of Panama*, The John Hopkins Press, Baltimore, Maryland, 1964), p. 132.

[66]Hansen, *op. cit.* p. 13

[67]This inequity between the rural and urban sectors is even more pronounced in the case of direct taxes in India.

[68]This seems to be true not only in India and other underdeveloped countries, but in the developed countries as well, for instance, the Report of the Royal Commission on Dominion-Provincial Relations came to the conclusion that the Canadian manufacturers' sales tax: "Contains some elements of progressivity as a result of the exemption of a number of necessities, although the exemptions are such that the incidence of the 8 per cent sales tax varies more between occupational groups—e.g. farmers and clerks—than between most income groups", Quoted in A.P. Mills, 'Canadian Experience With Broad-Based Excise Taxation', in *Alternatives To Present Federal Taxes* (Tax Institute of America, Princeton, 1964), p. 119

[69]For an excellent discussion of the influence of various forms of taxation on saving in underdeveloped countries see, Richard Goode, 'Taxation of Savings and Consumption in Underdeveloped Countries', *National Tax Journal*, Vol. 14 (December 1961), pp. 305-22

[70]*Ibid.* p. 306

[71]'Income, Consumption, and Property as Bases of Taxation', *American Economic Review*, Vol. 52, No. 2, (May 1962), p. 328; see also Bent Hansen, 'Tax Policy and Mobilization of Savings' in Alan T. Peacock and Gerald Hauser (eds.) *Government Finance & Economic Development*, (Organization for Economic Co-operation and Development, Paris, 1965), pp. 147-9

[72]A.R. Prest, *The Future of Purchase Tax*, Hobart Paper 83, (Institute of Economic Affairs, London, 1961) p. 14; also John F. Due, 'Sales Taxes', *Report of Proceedings of the Nineteenth Tax Conference*, (Canadian Tax Foundation, Toronto, Canada, 1967), pp. 295-96

[73]A.R. Prest, *Public Finance*, (Quadrangle Books, Chicago, 1960), p. 363.

[74]A temporary increase in rates of taxation would have the same effects.

[75]The major trouble with the use of temporary changes in rates, as experience

with the British purchase tax has revealed, is that they lead to discontinuity of production (which is concomitant to the shifts in consumption and savings). In any event the impact on savings is only temporary. Thus, temporary changes in rates are more appropriate as an anti-inflationary devise than as a means of encouraging savings.

[76]It is suggested that a tax on consumption will be more favourable to private saving than an equal-yield tax on income because the consumption tax will leave a larger proportion of real disposable income with those people who have a higher-than-average savings rate.

[77]Walter Heller, 'Fiscal Policies for Underdeveloped Countries', reprinted in Richard Bird and Oliver Oldman (eds.) *Readings On Taxation In Developing Countries* (John Hopkins Press, Baltimore, 1964), p. 22

[78]W.A. Lewis, 'Economic Development with Unlimited Supplies of Labour', reprinted in *The Economics of Underdevelopment*, edited by A.N. Agarwala and S.P. Singh (Oxford University Press, New York, 1963), p. 420

[79]W. Arthur Lewis, *The Theory of Economic Growth* (Richard D. Irwin Inc. Homewood, Illinois, 1955), pp. 227-28

[80]Stephen R. Lewis, Jr. 'Aspects of Fiscal Policy and Resource Mobilization in Pakistan', *Pakistan Development Review*, Volume IV (Summer 1964), pp. 265-6

[81]E. Cary Brown, 'Analysis of Consumption Taxes, in Terms of the Theory of Income Determination', *American Economic Review* Vol. 40 (1950), pp. 74-90

[82]If a Consumption tax is permanent, the resulting increase in the prices of commodities reduces the real value of savings as much as that of consumption.

[83]*The Influence of Sales Taxes on Productivity*, (European Productivity Agency of the Organisation for European Economic Cooperation, Paris, 1958), p. 46

[84]'Indirect Taxes—Retrospects and Prospects', *Tata Quarterly*, Vol. 16 (October, 1959), pp. 115-6

[85]James A. Maxwell, *Fiscal Policy*, (Henry Holt and Company, New York, 1955), p. 194

[86]Demand absorbing commodity taxes may result in an increase in total consumer spending (including taxes) at the expense of savings; but spending net of taxes will be reduced.

[87]See John Due, *Sales Taxation* (University of Illinois Press, Urbana, 1957), pp. 165, 203-4, 226-9, 252-3

[88]E.S. Kirschen and Associates, *Economic Policy In Our Times*, Vol. 1 (North-Holland Publishing Company, Amsterdam, 1964), p. 55

[89]Richard Goode, 'Anti-inflationary Implications of Alternate Forms of Taxation', *American Economic Review* (1951)

[90]*Federal Tax Reform*, (University of Chicago Press, Chicago, 1950), p. 7

[91]Richard A. Musgrave, *The Theory of Public Finance*, (McGraw-Hill Book Company, New York, 1959), p. 240

[92]*Essays in Taxation*, (Canadian Tax Foundation, Toronto, Canada, 1966), p. 88.

[93]John F. Due, *Sales Taxation* (University of Illinois Press, Urbana, 1957), p. 361. Due points out that "separate quotation of tax to the consumer is virtually impossible with non-retail taxes, partly because of the added record keeping costs, but primarily because it would reveal merchants' margins to their customers" (p. 361).

[94]However, if the burden of the retail commodity tax is assumed to be distributed

among productive agents, owners of firms and consumers, then it is not free from the 'hidden' burden criticism. Separate quotation of the retail tax to the consumer makes it more likely that it will be borne by the consumer, but it might still be partially shifted back to the productive agents.

[95]United Nations Economic Commission for Asia and the Far East (prepared by R.J. Chelliah) 'Tax Potential and Economic Growth in the Countries of the ECAFE Region', *Economic Bulletin For Asia and the Far East*, Vol. 17 (September, 1966), p. 42

[96]G.S. Sahota, *Indian Tax Structure and Economic Development*, (Asia Publishing House, New York, 1961), p. 5

[97]United Nations Economic Commission for Asia and the Far East, *op. cit.* p. 41

[98]Ram Niranjan Tripathy, *Fiscal Policy and Economic Development in India* (The World Press Private Ltd. Calcutta, 1958) p. 144

[99]Raga J. Chelliah, *Fiscal Policy in Underdeveloped Countries* (George Allen and Unwin, Ltd. London) p. 149

[100]Richard S. Thorn, 'The Evolution of Public Finances During Economic Development', *The Manchester School of Economic and Social Studies*, Vol. 35, (January, 1967), p. 32

[101]'Elasticity and Rate of Growth of State Taxes' in M.D. Joshi (ed.) *Mobilisation of State Resources* (Impex India, New Delhi, 1967), p. 50

[102]Income-elasticity is the relative change in tax revenue divided by the relative changes in income, or $\frac{\Delta T\alpha}{T} \Big/ \frac{\Delta Y}{Y}$, where 'T' is tax revenue, '$\Delta T \alpha$' is automatic change in tax revenue and 'Y' is income.

[103]See Chelliah, *op. cit.* p. 35, Rate Elasticity may be defined as follows :— $\frac{\Delta T}{T} \Big/ \frac{\Delta R}{R}$, where "T" is tax revenue and 'R' is the rate of tax.

[104]G.S. Sahota, *op. cit.*

[105]Sahota, *op. cit.* pp. 16-17

[106]His estimate of a very low income-elasticity for all Union taxes taken together is unlikely to hold for other periods. R.J. Chelliah has estimated the income-elasticity of State taxes as a whole for the period 1956-57 to 1962-63 as 1.35. In M.D. Joshi, *op. cit.* p. 46

[107]This is a significant conclusion as economists generally seem to feel that the income tax is more income-elastic than consumption taxes.

[108]United Nations Economic Commission for Asia and the Far East (prepared by R.J. Chelliah), *op. cit.* p. 35

[109]The classical argument can also be put somewhat differently: that the imposition of a commodity tax increases the marginal cost of each firm in the industry and that producers receive less profits (some marginal firms may even suffer losses), the lower profit then induces the firms in the industry to restrict output which, given the demand, raises the price of the taxed commodity.

[110]H.G. Brown, "The Incidence of a General Output or Sales Tax", *Journal of Political Economy*, Vol. 47 (April 1939), pp. 254-62; Earl Rolph, "A Proposed Revision of Excise Tax Theory", *Journal of Political Economy*, Vol. 60 (April 1952), pp. 102-16. For a defence of the 'classical' analysis of forward shifting see John

F. Due, 'Towards a General Theory of Sales Tax Incidence', *Quarterly Journal of Economics*, Vol. 48 (May 1953), pp. 253-66

[111]Edwin R.A. Seligman, *Shifting and Incidence of Taxation*, 4th ed. (Columbia University Press, New York, 1921), p. 2

[112]*The Theory of Public Finance, op. cit.*, p. 212. He refers to this concept as the *differential* tax incidence.

[113]Thomas, N. Carver, 'The Shifting of Taxes', *Yale Review*, Vol. 5, (November 1896) p. 258

[114]The earlier approach of considering incidence as a special problem of price theory can probably be thought to have culminated with Otto Von Mering's *The Shifting and Incidence of Taxation*, (The Blakiston Co., Philadelphia, 1942). On the other hand, the new approach has been most cogently argued by Richard Musgrave in *The Theory of Public Finance*, McGraw-Hill Book Company, New York, 1959, (Chapters 10, 11 and 16)

[115]Richard A. Musgrave 'Estimating the Distribution of the Tax Burden', in *Problems of Tax Administration in Latin America*, The John Hopkins Press, Baltimore, 1965), p. 31

[116]*Incidence of Indirect Taxation* 1958-9, (Economic Division, Tax Researcher Unit, New Delhi, 1961)

[117]For instance, see the relatively crude study by Musgrave : *op.cit.* pp. 31-75

[118]See Appendix Table A-27

[119]See Appendix Tables A-27 and A-28

[120]While both taxes are progressive over the entire range of expenditure groups, the 1958-9 data indicate sales taxes are more progressive than excise duties at the lower and upper ends of the expenditure scale, while excise duties are more progressive than sales taxes in the middle ranges of the expenditure scale.

[121]Thus, although a consumption tax is progressive in respect to expenditure, it may be regressive (or considerably less progressive) with respect to income. This was found to be the case for the sales tax in Columbia. See Jonathan Levin 'Will Sales Tax Work in Developing Countries', *Finance and Development*, Vol. 5 (March 1968), p. 21

[122]Government of India, Planning Commission (Government of India Press, Delhi, 1961), p. 104

[123]Among the special Acts are the following:

(a) Indian Coconut Committee Act, 1944
(b) Indian Oilseeds Committee Act, 1946
(c) Coal Mines Labour Welfare Act, 1947
(d) Coal Mines (Conservation and Safety) Act, 1952
(e) Rubber Act, 1947
(f) Rubber (Amendment) Act, 1960
(g) Iron Ore Mines Labour Welfare Cess Act, 1961
(h) Khadi and other Handloom Industries Development (Additional Excise Duties on Cloth) Act, 1953
(i) Dhoties (Additional Excise) Act, 1953
(j) Cotton Fabrics (Additional Excise Duty) Act, 1957

See: *Report of the Finance Commission, 1965* (Government of India Press, New Delhi, 1965), p. 22

[124]An attempt to discern excise taxes in ancient India is to be found in: Sunil Ranjan Sarkar, 'Sales Tax has a History in India', *Indian Journal of Economics*, Vol. 34, (October, 1953), pp. 93-114; for a description of excise duties in the Mauryan period, see M.H. Gopal, *Mauryan Public Finance*, (George Allen & Unwin Ltd. London, 1935), pp. 93-8

[125]*Report of the Central Excise Reorganisation Committee, 1963* (Government of India Press, Nasik, 1963), p. 4, (hereafter referred to as the R.C.E.R.C.)

[126]Government of India, *Report of the Taxation Enquiry Commission*, Vol. II, (Government of India Press, New Delhi, 1955), pp. 422-3

[127]*Ibid.* p. 396

[128]The excise on betelnuts was abolished in 1948 mainly because of the major producing areas having gone to Pakistan as a result of the Partition, and partly because of administrative difficulties associated with the duties.

[129]*Report of the Taxation Enquiry Commission*, Vol. II, *op. cit.* p. 257

[130]See: Appendix Table A-6 for a complete list of all the products that have been subjected to excise duty and the initial date on which they were first subjected to excise.

[131]The additional duties of excise in lieu of sales tax are discussed more fully in a later chapter.

[132]A certain percentage of the Basic Excise Duties on a large number of commodities (as specified by the Finance Commission) is automatically transferred to the States. By levying a surcharge rather than merely increasing the basic excise duties, the Centre received the entire increase in the revenue resulting from this change.

[133]Government of India, *Budget*, 1963-4, *Finance Minister's Speech*, (Part B) paragraph 41

[134]The 1964-5 budget exempted the following articles from the special excise surcharge: synthetic organic dye-stuffs, glass other than plate or sheet glass, china-ware and porcelain-ware, cellophane, printing and writing paper not exceeding 75 grammes per square meter, and electric bulbs upto 60 watts, except flourescent tubes and miniature bulbs.

[135]Government of India, *Budget, 1963-4, Finance Minister's Speech* (Part B), paragraph 41

[136]*Ibid.* paragraph 44

[137]Government of India, *Budget, 1964-5, Finance Minister's Speech* (Part B), paragraph 44

[138]Government of India, *Budget, 1963-4, Finance Minister's Speech* [(Part B), paragraph 44

[139]See Table A-23

[140]See Table A-5 for a commodity breakdown of the basic special and additional excise duties

[141]See Table A-25

[142]See Tables A-24 and A-25

[143]*TEC.* Vol. II, p. 258

[144]*Ibid.* p. 258

[145]*Ibid.* p. 258

[146]*Ibid.* p. 259

[147] *R.C.E.R.C.*, p. 68

[148] *Ibid.* p. 68

[149] See *T.E.C.*, Vol. II, p. 259

[150] This is true even for the calculation relating to the same period (1938-9 *to* 1953-4)

[151] As indicated above I feel there is a mistake in the figure attributed to an increase in consumption between 1953-4 and 1961-2. However, the data for the period from 1938-9 to 1961-2 provides us with a picture of the relative importance of the three factors which is probably the most accurate available.

[152] *Source* : Appendix Table A-5

[153] *Source* : Appendix Table A-5

[154] See N. Anjanaiah, 'Money Burden of Excise Duties', *Economic Times*, V›. 6 (May 9, 1966), p. 5; D. Bright Singh, *Economics of Development· with Special Reference to India* (Asia Publishing House, Bombay, 1966)

[155] Government of India, *Budget, 1964-5, Finance Minister's Speech* (Part B), paragraph 39

[156] *Ibid.* paragraph 39

[157] See Part B, paragraph 34

[158] *Report of the Central Excise Reorganisation Committee, 1963* (Government of India Press, Nasik, 1963, hereafter referred to as *R.C.E.R.C.*)

[159] While this writer believes that the whole policy of providing preferential treatment for village and small-scale industries is probably shortsighted, in this paper I will not question this policy itself as it would involve consideration of the whole question of unemployment and disguised employment in India. Instead I will be concerned more with whether preferential excise treatment for small-scale industries is an appropriate mechanism for promoting small-scale industry.

[160] Government of India, Planning Commission, Third Five-Year Plan (Government of India Press, Delhi, 1961), p. 426

[161] *Ibid.* p. 431

[162] *Report of the Taxation Enquiry Commission 1953-4*, Vol. III, (Government of India Press, New Delhi, 1955), p. 314

[163] *Ibid.* p. 314

[164] *Ibid.* p. 314

[165] Under Government of India, Ministry of Finance (Department of Revenue), Notification No. 24/65—Central Excises, dated the 28th February 1965, tyres and tubes for cycles are completely exempt from excise duty.

[166] Under Government of India, Ministry of Finance (Department of Revenue), Notification No. 24/64 Central Excises, dated the 28th February, 1965, footwear and footwear parts are completely exempt from excise duty.

[167] Under Government of India, Ministry of Finance (Department of Revenue), Notification No. 25/64-Central Excises, dated the 1st March, 1964, Hydrochloric and nitric acids were completely exempted from excise duty.

[168] *R.C.E.R.C. op. cit.* pp. 70-73

[169] All of the cases listed under number (8) above are of this nature.

[170] The exemptions for internal combustion engines fitted on agricultural tractors are best considered as part of the general question of whether it is desirable to tax agricultural inputs.

[171]*R.C.E.R.C. op. cit.* p. 74

[172]*Ibid.* p. 76. This exemption was withdrawn in April 1962.

[173]*Ibid.* pp. 200-205.

[174]In 1963, all non-processed vegetable non-essential oils were completely exempted from excise duty.

[175]*R.C.E.R.C. opus cit.* p. 166

[176]The difficulty of devising rules to prevent fragmentation is clearly revealed in the following quotation from the *Report of the Central Excise Reorganisation Committee 1963*: "To prevent decentralisation of manufacture to exploit tariff preferences, rules have provided that no member of a Hindu undivided family can be given a licence for more than one factory in the same district, if the collector is satisfied that the business will be carried on for the benefit of the same family. Another rule requires every manufacturer to secure approval for the label he uses for his matches; the purpose is to detect whether the same family owns more than one unit. Both these restrictions have been easily evaded; the first, by producing deeds of partition, even if they are merely nominal and, the second, by simulated purchase of label copyrights and obtaining excise approval to the use of common labels by several separately licensed manufacturers. The rules have thus been circumvented and their purpose frustrated." *Ibid.* p. 167.

The schemes of exemptions and preferences for the cotton powerloom fabrics industry also led to widespread fragmentation, which in turn led to the introduction of various anti-fragmentation devices which largely failed. See—*R.C.E.R.C.*, pp. 146-7

[177]*Ibid.* pp. 77-8

[178]The Chanda Committee also expressed itself in favour of direct cash subsidies. *R.C.E,R.C.*, pp. 78-9.

However, even the cash subsidies should not be provided without careful consideration, as they share the difficulty of tax exemptions and preferences that are difficult to remove once they are embedded in people's consciousness even though their original justification may have long disappeared.

[179]*R.C.E.R.C.* op. cit. p. 140

[180]Raga J. Chelliah, *Fiscal Policy in Underdeveloped Countries* (George Allen and Unwin, Ltd. London, 1960), p. 149

[181]H.T. Parekh, 'Some Aspects of Export Promotion', *Commerce*, Annual Number, Vol. 103, (December, 1961), p. A101

[182]*R.C.E.R.C.* p. 84

[183]A similar problem has arisen in conjunction with the remission of sales tax on exported products.

[184]For instance, the refund of yarn duty on woollen fabrics exported is limited to the weight of the yarn in the fabric actually exported. However, the excise duty actually paid on the yarn utilized is considerably in excess of the refund because of the substantial loss of weight of the yarn due to de-oiling, washing and other processes to which the fabric is subjected for finishing. *R.C.E.R.C.*, p. 150

[185]*R.C.E.R.C.*, p. 85

[186]Such as marmalades, jams, and jellies for the duty on their sugar content, typewriter ribbons for the cotton fabric duty and paints for the linseed oil duty.

[187]See the discussion of *ad hoc* rebates of sales taxes in the section on sales taxation of exports.

[188]*R.C E.R.C.*, p. 80

[189]*R.C.E.R.C.*, p. 217

[190]*Ibid.* p. 61

[191]*Ibid.* p. 62

[192]This misallocation of resources resulting from a multi-point commodity tax is discussed at some length in the section on types of sales taxes.

[193]Because the rate of taxation at any one stage is reduced.

[194]However, it should be pointed out that a considerable portion of the corruption accompanying decentralization, is not so much a result of the decentralization itself as of other factors accompanying it.

[195]*Op. Cit.* p. 62

[196]Government of India, *Budget 1965-6. Finance Minister's Speech (Part B)*, paragraph 33

[197]Nachiketa, 'Commodity Taxation in India: II-Practical Measures for Reform', *Financial Express*, Vol. 1 (December 8, 1961), pp. 4-5

[198]Raga J. Chelliah, *Fiscal Policy in Underdeveloped Countries* (George Allen and Unwin, Ltd. London, 1960), pp. 89, 148; H. Pershad, *Indian Taxation During and After World War II*, (Allied Publishers Private Limited, Bombay, 1964) p. 201

[199] *Ibid.* p. 86

Chelliah feels that "to argue that such taxation is necessary for the maintenance of essential government service is one thing; but to say that we must augment tax revenue from this source to raise the current rate of investment is an entirely different thing" (p. 86). This line of argument can only lead to muddled thinking on the question of taxing necessities. The desirability of a particular tax is not related to what the Government does with the revenue. The desirability of taxing necessities must be judged in light of the total revenue needs of the Government.

[200]'Memorandum by the Panel of Economists', *Papers Relating to the Formulation of the Second Five Year Plan*, (Government of India, Planning Commission, 1955), pp. 3-4; Government of Pakistan, *Taxation Enquiry Committee Report*, Volume I (Government of Pakistan Press, Karachi, 1963), p. 9

[201]*Report of the Taxation Enquiry Commission*, Vol. III, (Government of India Press, New Delhi, 1955), pp. 28-30, 50-51

[202]Raga J. Chelliah, *Fiscal Policy in Underdeveloped Countries*, (Goerge Allen and Unwin, Ltd. London, 1960), p.149; also, Federation of Indian Chambers of Commerce and Industry (Reply to Tax Enquiry Commission's Questionnaire), *Report of the Taxation Enquiry Commission, 1953-54*, Vol. IV. (Evidence) Part I, (Government of India Press, New Delhi, 1955). p. 266

[203]*Report of The Central Excise Reorganisation Committee, 1963*, (Government of India Press, Nasik, 1963) p. 39

[204]*Ibid.*

[205]*Ibid.*

[206]*Ibid.* p. 40

[207]Government of India, Ministry of Finance (Department of Revenue), Notification No. 151/63-Central Excises, dated the 4th September, 1963.

[208]Although cotton fabrics is a notable exception.

[209]One important factor in the decline of economy cigarettes in the United

States during World War II was the heavy federal and state excise taxes imposed at a flat rate per package. If these taxes had been levied as a percentage of value, the economy cigarette might have held open an interesting price difference and might still be an important factor in the market. See Albert Hart and E. Cary Brown, *Financing Defense: Federal Tax and Expenditure Policies.* (The Twentieth Century Fund, New York, 1951), pp. 57-8.

[210]See R.N. Bhargava, *Indian Public Finances*, (George Allen & Unwin Ltd. London, 1962) p.114; also United Nations' Economic Commission for Asia and the Far East, "Taxation and Development of Agriculture in Underdeveloped Countries, with Special Reference to Asia and the Far East," *Economic Bulletin For Asia and the Far East*, Vol. 9, p. 11

[211]In Appendix

[212]For a good general criticism of the notion that an industry has developed as a result of tariff protection, provides justification for the levy of duties on the industry, see Chelliah, *op. cit.* p.148

[213]There is a full discussion of Mr. Bhoothalingam's suggestions regarding excise taxation in a later chapter.

[214]Nachiketa, 'Commodity Taxation In India: II Practical Measures for Reform" *Financial Express*, Vol. 1 (December 8, 1961), p. 4

[715]Russi Jal Taraporevala, 'Reforming the Tax Structure to Promote Economic Growth', *Capital* Supplement, Volume 147 (December 21, 1961), p. 59

[216]*R.C.E.R.C. op. cit.* p. 33

[217]A.R. Prest has questioned whether the average of five or six changes in the rates of the British purchase tax during the year are either necessary or desirable. He argues that all purchase tax changes should occur when the Finance Bill is introduced and that there should not be any changes during the rest of the year: *Public Finance* (Quadrangle Books, Chicago 1960), pp. 380-81

[218]*R.C.E.R.C. op. cit.* p. 20

[219]R.C.E.R.C. p. 59

[220]Government of India, Department of Commercial Intelligence and Statistics, *Indian Customs and Central Excise Tariff*, Fifty-fifth issue, Volume II, p. 67

[221]It will be seen that the same thing occurs frequently when compounded levies are introduced into the sales tax systems of India.

[222]*R.C.E.R.C. op. cit.* p. 59. In the case of the vegetable non-essential oil industry, a compounded levy scheme led to a considerable increase in the production of the small-scale sector at the expense of the organized sector.

[223]See Table A-7

[224]This cost of collection is not much higher than the cost of collecting similar taxes in the developed countries. The cost of collection for all customs and excises in Britain is .76 per cent of the yield. But officials have suggested that the figure for the purchase tax alone is somewhat greater than this. John Due, *Sales Taxation*, (University of Illinois Press, Urbana, 1957), p. 225; the cost of collecting the Canadian manufacturers sales tax has been placed at about .37 per cent. See A.P. Mills, 'Canadian Experience With Broad-Based Excise Taxation,' in *Alternatives To Present Federal Taxes*, (Tax Institute of America, Princeton, 1964), p. 112

[225]Mahfooz Ahmed: 'Cost of Tax Collection in India', *Economic and Political Weekly*, Vol. 3, No. 7 (February 17, 1968), p. 339

[226]There have been a number of attempts to measure compliance costs of various taxes in the United States, although some of these attempts have amounted to little more than informed guesses. Among the more important studies of compliance costs are the following: Robert M. Haig, 'The Cost to Business Concerns of Compliance with Tax Law', *The Management Review* (November 1935), pp. 323-333; James W. Martin, 'Costs of Administration: Example of Compliance Expenses', *Bulletin of the National Tax Association*, April, 1944, pp. 194-205; James C. Yocum, *Retailers' Cost of Sales Tax Collection In Ohio*, (Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus, Ohio, 1961)
See also Marion H. Bryden, *The Costs of Tax Compliance* (Canadian Tax Foundation, Toronto, Canada, 1961)

[227]In 1961 an additional duty of excise also replaced sales tax on silk fabrics. However in 1965 both the basic and the additional excise duties were abolished and the States were again free to place sales tax on silk fabrics.

[228]*Report of the Finance Commission*, 1957. (Government of India Press, New Delhi, 1957), p. 2

[229]*Ibid*. p. 59

[230]*Ibid* p. 60

[231]*Ibid*. p. 61

[232]*Report of the Finance Commission*, 1961, (Government of India Press, New Delhi, 1962), p. 27

[233]*Report of the Finance Commission*, 1965, (Government of India Press, New Delhi, 1965), pp. 33-4

[234]The revised estimate for 1967-8 is Rs. 48.22 crores and the budget estimate for 1968-9 is Rs. 53.38 crores. See Table A-5. Actually, all of the above figures are slight over-estimates of what the States actually receive from additional duties of excise as the Centre deducts the cost of collection from these totals, which in each of these years was about Rs. 0.5 crore.

[235]See Tables A-1, A-2 and A-5

[236]See Tables A-4 and A-5

[237]*Orissa Taxation Enquiry Committee Report*, (Government of Orissa Finance Department, 1961), pp. 84-5

[238]P.S. Lokanathan, *Sales Tax System In Andhra Pradesh—A Review*, (National Council of Applied Economic Research, New Delhi, 1963), p. 19; for a similar recommendation see M.H. Gopal, *Studies In Indian Public Finance*, (Rao and Raghavan, Mysore, 1963), p. 88

[239]*Report of the Central Excise Reorganization Committee*, (Government India Press, Nasik, 1963) p. 10. The Committee did not go so far as to actually recommend such a merger as it felt that it was outside the scope of its charter to make recommendations on questions of policy.

[240]Federation of Indian Chambers of Commerce and Industry, *Memorandum on Sales Tax* (Published by the Federation, New Delhi, September, 1952); Federation of Indian Chambers of Commerce and Industry, *Sales Tax* (Published by the Federation, New Delhi, November, 1960)

[241]*Ibid*. (*Sales Tax*), p. 13

[242]*Report of the Taxation Enquiry Commission*, Vol. III, (Government of India Press, New Delhi, 1955), pp. 43-4

[243]Ram Niranjan Tripathy, *Fiscal Policy and Economic Development In India* (The World Press Private Ltd. Calcutta, 1958), p. 153

[244]*Ibid.* p. 149

[245]In this connection it is interesting to note that similar fears have been expressed in the United States. In 1947 the National Tax Association appointed a committee on coordination of taxes. The majority viewpoint was against the imposition of a federal sales tax combined with sharing between the States, because the formula for sharing was likely to be shaped largely by political considerations. National Tax Association Proceedings, p. 86

[246]D.R. Singh, 'Substitution of Excise Duty for Sales Tax; Its Impact on State Revenues', *Economic Weekly*, Vol. 16 (July 11, 1964), p. 1131

[247]Lokanathan, *op. cit.* p. 15

[248]It is important to note that the Fifth Finance Commission has been appointed with wider terms of reference in regard to Additional Excise Duties. The past Finance Commissions have merely been called upon to suggest principles for the distribution of the excess revenue after allowing for the guaranteed amounts. The Fifth Finance Commission, on the other hand, has been appointed to look into the desirability of maintaining the existing arrangements under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, to consider modifications in these arrangements, and to consider the scope for extending such arrangements to other commodities, as well as to consider principles for distribution of the excess revenue.

[249]S. Bhoothalingam, *Final Report on Rationalisation and Simplification of the Tax Structure*, (Government of India Press, New Delhi, 1968), pp. 4-5

[250]*Ibid.* p. 3

[251]*Ibid.* p. 5

[252]*Ibid*

[253]*Ibid*

[254]*Ibid*

[255]*Ibid.* p. 6

[256]*Ibid.* p. 7

[257]*Ibid.* p. 8

[258]The twelve commodities are:

(1) Woollen textiles (Yarn and fabrics)
(2) Patent and proprietary medicines
(3) Synthetic and organic dye-stuffs
(4) Cosmetics
(5) Soap
(6) Paints and varnishes
(7) Aluminum
(8) Copper and copper alloys
(9) Refrigerators and air conditioners
(10) Batteries
(11) Electric wires and cables
(12) Electric motors

[259]*Ibid.* p. 12

[260]In private conversation with this writer, Mr. Bhoothalingam, admitted that his General Excise Duty would require the maintenance of more complex accounts, but he felt that it was already necessary for firms to maintain many of these accounts for Corporate Income Tax purposes.

[261]Bhoothalingam estimates that the administrative effort involved in a Genera Excise Duty assessment and collection will be about two or three times the effort involved in an Income-tax assessment (*op. cit.* p. 11). However, the relevant question, which he hardly discusses at all, has to do with the administrative effort involved in his proposed General Excise Duty in comparison with the administrative effort required by the existing excise system or alternative *excise* systems.

[262]For constitutional reasons it would not be possible to levy excise duties at either the wholesale or retail stage.

[263]It might be noted, that Bhoothalingam's proposed elimination of rate differentiation is probably the most widely criticized aspect of his excise proposals. For instance, the *Eastern Economist* stated that the major defect of his proposals is that: "they do not make any distinction between essential and non-essential commodities. This distinction cannot be dispensed with in the prevailing circumstances in the country". Special Budget Number (March 15, 1968), p. 475

[264]Thereby making the total higher levies 30 per cent, 50 per cent and 100 per cent.

[265]This has already been discussed in a previous section.

[266]Which is frequently referred to as a 'turnover tax'.

[267]The German cumulative turnover tax is frequently referred to as the prototype of this kind of tax.

[268]*Sales Taxation* (University of Illinois Press, Urbana, 1957), p. 353

[269]Carl. S. Shoup, *et. al. The Fiscal System of Venezuela*, (The John Hopkins Press, Baltimore, 1959), p. 306

[270]'Administrative Criteria in the Establishment of Sales and Excise Tax Structure', in *Problems of Tax Administration In Latin America*, (The John Hopkins Press, Baltimore, Maryland, 1959), p. 417

Similarly, Carl Shoup *et al.* have concluded that "in general, any other form of sales taxation will function in a tolerable fashion; the turnover tax is to be avoided under all circumstances", *The Fiscal System of Venezuela*, (The John Hopkins Press, Baltimore, 1959), *op. cit.* p. 306

See also, A.R. Prest, *The Future of Purchase Tax*, (Hobar Paper 8), (Institute of Economic Affairs, 1961), p. 25

[271]See Clara Sullivan, *The Tax on Value-Added*, (Columbia University Press, New York, 1965), for a thorough discussion of the operation of the tax in France.

[272]Sullivan, *ibid.* p. 16. Although the Shoup Mission's recommendation was accepted and a law introducing the value-added tax was passed, the tax was never put into operation in Japan.

[273]It is generally recognized that in theory either a completely general value-added tax (that is, a value-added tax levied at only one rate on all commodities and covering all stages, including the retail stage) or a completely general retail sales tax (that is, a retail sales tax levied at one rate and covering all commodities) could be

completely neutral in the sense of leaving the relative retail prices of all commodities unaltered. However, the neutrality of the retail sales tax disappears to the extent that manufacturers' purchases of commodities from retailers for business use are subjected to sales taxation. Thus, in order for the general retail sales tax to be neutral (i.e. to leave relative prices of final products unchanged) retail sales for business use must be exempted. Similarly, for the value-added tax to be neutral, all purchases for business use must be made deductable in calculating value added. In practice, neither the retail sales tax nor the value-added tax can be made completely neutral, mainly because of the difficulty of completely excluding purchases for business use from taxaton. See the interesting exchange between Ann Friedlaender and John Due on the relative difficulties involved in making these two taxes completely neutral: Ann F. Friedlaender, "Indirect Taxes and Relative Prices", *Quarterly Journal of Economics*, Vol. 31 (February 1967), pp. 125-139; John F. Due, "Comment", *Quarterly Journal of Economics*, Vol. 32 (May 1968), pp. 340-3; Ann F. Friedlaender, "Reply", in the same issue, pp. 344-5

[274]See Due, *Sales Taxation, op. cit.* pp. 359-60

[274a]*Ibid.* p. A-36

[274b]The wholesale sales tax is presently in use in Australia, New Zealand and Switzerland.

[275]A.R. Prest, *Ibid.* p. 76; Shoup, *et. al. op. cit.* p. 307

[276]Pyramiding is the term generally used to refer to final price increases in excess of the tax increase, due to distributors' use of percentage-mark-up pricing methods. If wholesalers and retailers apply their mark-up percentages to purchase prices, which include tax, the selling prices will rise by amounts in excess of the tax. There is a considerable amount of disagreement as to whether pyramiding really occurs, and if so, whether it occurs only in the short run. John Due in his various writings on sales taxation has placed considerable emphasis on the pyramiding effects of sales taxes levied at the manufacturing or wholesale stage and cites some empirical indications of pyramiding in the case of excise duties on manufacturers in the United States and in the case of the Canadian manufacturers sales tax. See John F. Due, "The Effects of the 1954 Reduction in Federal Excise Taxes Upon the List Prices of Electrical Appliances", *National Tax Journal*, Vol. VII (September 1954), pp. 222-7 and "American and Canadian Experience with the Sales Tax", *Journal of Finance*, Vol. VII (September, 1952), pp. 468-9. On the other hand, many economists have questioned the existence of pyramiding, arguing that competitive forces will prevent pyramiding by forcing downward readjustments in mark-up percentages. Moreover, where mark-up pricing is not adopted by wholesalers or retailers, pyramiding will not occur. For a good criticism of the pyramiding argument see Kenneth Eaton, *Essays In Taxation*, (Canadian Tax Foundation, Toronto, Canada, 1966), pp. 84-5

[277]In England it is estimated that there are only 60,000 wholesale outlets, compared with 600,000 retail outlets. See A.R. Prest, *Public Finance In Underdeveloped Countries*, (Weidenfeld and Nicolson, London, 1962), p. 74

[278]A manufacturers sales tax is also levied in many Latin American countries.

[279]John. F. Due, 'Lessons from Canadian Experience', in National Industrial Conference Board, *Consumption Tax and Tax Reform*, (New York, 1953), pp. 44-5

[280]A.P. Mills, 'Canadian Experience with Broad-Based Excise Taxation', in *Alternatives to Present Federal Taxes* (Tax Institute of America) pp. 111-21

[281]*Report of the Royal Commission on Taxation*, Volume 5, Part A, (Queens Printers, Ottawa, Canada, 1966), pp. 1-92

[282]Shoup, *et. al. op. cit.* p. 308

[283]Sarkar, Sunil Ranjan, 'Sales Tax Has a History in India', *Indian Journal of Economics*, Vol. 34 (October 1953), p. 93. It might be mentioned that these early traces of 'sales' taxes are rather obscure, and there is very little information on how they actually operated; for a discussion of sales taxation in the Mauryan period see M.H. Gopal, *Mauryan Public Finance* (George Allen and Unwin Ltd. London, 1935) pp. 107-110

[284]Seventh Schedule, List II, Entry 48

[285]Government of Bombay, *Report of the Sales Tax Enquiry Committee*, (Government Central Press, Bombay, 1958), p. 6

[286]*C.P.& Berar Sales of Motor Spirit and Lubrication Taxation Act*, 1938, *In. re.* IS. TC. 1.

[287]*Province of Madras v. Boddu Paidanna*, IS.TC. 104 (Federal Court).

[288]The last State to levy a general sales tax was Jammu and Kashmir, which introduced this tax in 1962

[289]Many of the modifications were necessitated by the reorganization of States.

[290]*Report of the Andhra Sales Tax Enquiry Committee*, 1956, (Andhra Government Press, Kurnool, 1956), p. 28

[291]*State of Bombay v. United Motors (India) Ltd.* (1953) 4 S.T.C. 133, 142; (1953) S.C.R. 1069

[292]Government of India, *Report of the Taxation Enquiry Commission*, Vol. III, (Government of India Press, New Delhi, 1955), p. 24. Hereafter this report will be referred to as follows: "T.E.C."

[293]The only difference being that under the new Constitution the States were not empowered to tax newspapers, while under the former Act they had the power to tax advertisements.

[294](1953) 4 S.T.C. 133, 153. The Supreme Court observed that: "On the construction we have placed upon the Explanation, sales or purchases effected in Bombay in respect of goods in Bombay but delivered for consumption outside Bombay are not taxable in Bombay".

[295](1955) 6 S.T.C. 446, 491: (1955) S.C.R. 603; A.I.R. 1955 S.C. 661 quoted in Indian Law Institute, *Interstate Trade Barriers and Sales Tax Laws in India* (N.M. Tripathi Pvt. Ltd. Bombay, 1962), p. 11

[296]*T.E.C.* Vol. III, pp. 25-6

[297]*T.E.C.* Vol. III, pp. 28-9

[298]A list of the 'essential' goods already taxed, by the various States at the time the Essential Goods Act was passed, is given in Federation of Indian Chambers of Commerce and Industry, *Memorandum on Sales Tax*, (September 1952), pp. 8-13

[299]*T.E.C.* Vol. III, pp. 29-30

[300]*Ibid.* p. 50

[301]*Ibid.* pp. 50-51

[302]*Ibid.* p. 55

[303]The only exception to this was raw materials: "Since by taxing these (while

they are still intra-state) the State Government can effect an increase in the cost of the manufactured article whether such manufacture takes place in the State which produces the raw material or in another which imports the material from that State; in either case, to the extent that the finished goods are consumed in a State other than the one which taxes the raw material, the increase in cost on account of the tax is a matter of direct concern to the consumer of another State". *T.E.C.* Vol. III, p. 55

[304]See *T.E.C.* Vol. III, pp. 57-61

[305]The new Entry 54, List II reads as follows:

"Taxes on the sale or purchase of goods other than newspapers subject to the Provisions of Entry 92A of List I".

[306]The Finance Bill 1968 omitted silk fabrics from this list.

[307]The Finance Act, 1966, Section 51(1) (b) substituted three per cent for two per cent.

[308]This rate was originally 1 per cent; it was raised to 2 per cent in 1963 and then raised to 3 per cent in 1966

[309]This rate was originally seven per cent, but was raised to ten per cent by the Central Sales Tax (Amendment) Act, 1963

[310]This rate was originally 1 per cent; it was raised to 2 per cent in 1963 and then raised to 3 per cent in 1966

[311]This rate was originally seven per cent, but was raised to ten per cent by the Central Sales Tax (Amendment) Act, 1963

[312]See Section 2(a), (b), (dd) and Section 9 of the Act. Article 269 of the Constitution had been amended by the Constitution (Sixth Amendment) Act, 1956, which added a new clause (1) (g) which permitted taxes on sale or purchase of goods in the course of inter-state commerce to be levied and collected by the Government of India but assigned to the States. Under Article 258(1) the Union has the power to delegate to any State Government any of its executive functions (including the power to assess and collect the sales tax on inter-state transactions).

[313]See Section 7 of the Central Sales Tax Act.

[314]The tax itself is, of course, assessed by the State only against the seller

[315]In the United States, the State Governments have tried to get around the constitutional restriction against taxation of inter-state sales by levying what is called a "use" tax on goods purchased outside the State for use within the State. Although an individual who purchases certain commodities in another State is legally liable for payment of the use tax to his State of residence, the States have had great difficulty in enforeing the use tax. This is one of the most difficult aspects of sales tax administration in the United States. For a discussion of the use tax see: Advisory Commission on Intergovernmental Relations, *Tax Overlapping in the United States 1964*, (The Advisory Commission on Intergovernmental Relations, Washington D.C. 1964)

[316]Indian Law Institute, *op. cit.* pp. 54-5. For a discussion of the major legal cases relating to the taxation of inter-state sales in the United States see Clinton v. Oster, *State Retail Sales Taxation*, (Bureau of Business Research, Ohio State University, Columbus, Ohio, 1957), pp. 115-23

[317]*T.E.C.* Volume III, p. 57 (emphasis mine)

[318]*Ibid.* pp. 57-58. This suggestion, however, was not adopted in the Central

Sales Tax Act. In all cases the Central sales tax is levied and kept by the exporting State.

[319]For further discussion of this, see the Chapter on "Sales Tax Rates".

[320]Moreover, to this extent the importance of the question as to whether the exporting or importing State should levy taxes on inter-state sales is lessened. In light of this agreement, it would probably not be worthwhile to shift to the importing State the power to levy sales taxes on inter-state sales.

[321]See the Chapter on 'Sales Tax Exemptions' for a discussion of whether sales to Governments should be completely exempted from sales taxation.

[322]The *T.E.C.* supported this as follows: "Since in permitting the levy of sales tax on inter-state trade, the main intention is to ensure that some revenue accrues to the exporting States without raising unduly the burden on consumers in the importing States, it is necessary that the rate to be specified in the Central legislation should be comparatively low. It should, in our opinion, be one per cent... In regard to these transactions, while the exporting States will, under the scheme of Central taxation of such transactions, retain the tax receipts realised from the levy of one per cent, the importing States will be able to recover their own taxes on the re-sales of those goods by the registered dealers within their area". Vo. III, p. 57

[323]Indian Law Institute, *op. cit.* pp. 45-6. The one per cent rate mentioned in this quotation is now 3 per cent.

[324]This has been suggested by the Federation of Indian Chambers of Commerce and Industry, *Sales Tax—A Re-Appraisal*, (Published by the Federation, New Delhi, December, 1958), p. 15

[325]Indian Law Institute, *op. cit.* pp. 20-21

[326]This is true of Delhi, Punjab, West Bengal, Gujarat and Maharashtra.

[327]This is also the case in West Bengal.

[328]Which was inserted by 5.2 of U.P. Sales Tax (Amendment) Act, 1956 (XIX of 1956)

[329]U.P. has provided that locks and their parts manufactured in Uttar Pradesh, when sold by the manufacturers thereof, will be exempt from sales tax.

[330]The recent Gujarat Sales Tax Inquiry Committee has recommended that a similar provision be adopted by Gujarat, see *Report of the Sales Tax Inquiry Committee* 1967 (Gujarat), (Government Press, Baroda, 1968), p. 41

[331]Government of India, Ministry of Commerce and Industry, *Report of the Import and Export Policy Committee*, (Government of India Press, New Delhi, 1962), p. 67

[332]Headed by Mr. R.G. Saraiya.

[333]As contained in its report entitled—*Report of the Committee on Sales Tax*, (Government of India Press, Faridabad, 1964)

[334]The use of this terminology refers to the stage at which the sales tax is applied and does not mean to imply anything about the incidence, or final resting place of the tax.

[335]*Report of the Committee On Sales Tax*, *op. cit.* pp. 23-4

[336]*Ibid.* p. 27

[337]*Ibid.* p. 30

[338]It might be mentioned that the additional difficulties associated with raw materials taxed under the Central sales tax would be eliminated if the 'importing' States rather than the 'exporting' States levied the tax.

[339]*Report of the Committee on Sales Tax op. cit.* p. 31

[340]*Ibid.* p. 32

[341]Which this writer argues in a later section

[342]For administrative reasons the granting of such relief might best be put in the hands of the customs authorities.

[343]Excluding States' share of Union tax revenue

[344]See Table A-2

[345]Of the total sales tax revenue of Rs. 560.8 crores, the sales tax on motor spirit accounted for Rs. 46.9 crores and the general sales tax accounted for the remainder. In relative terms the sales tax on motor spirit accounted for 4.0 per cent of State tax revenue. See Table A-15

[346]See Table A-25

[347]See Tables A-24 and A-25

[348]These figures are budget estimates for 1967-68. See Table A-17

[349]See Table 9 which ranks the States according to each of these factors

[350]For the calculation of the correlation coefficient see Appendix Tables A-18, A-19, A-20. All correlation co-efficients were found to be highly significant (at the .1 per cent level)

[351]See Government of India, *Report of the Taxation Enquiry Commission*, Vol. III (Government of India Press, New Delhi, 1955), p. 5, hereafter referred to as T.E.C.; also, P.S. Lokanathan, *Sales Tax System in Andhra Pradesh—A Review* (National Council of Applied Economic Research, New Delhi, 1963), p. 9

[352]Angel Q. Yoingco and Ruben F. Trinidad, *Fiscal Systems and Practices in Asian Countries*, (Frederick A. Praeger, New York 1968), p. 119

[353]See Table 9

[354]It is important to note that the term 'last point' sales tax in Gujarat and Maharashtra has a different meaning from that given to the term in other States. In most States a 'last point' sales tax is a retail sales tax, but in these two States it is really a *wholesale* sales tax

[355]The minimum turnover limit for importers or manufacturers has recently been raised to Rs. 20,000 in Gujarat

[356]The sales tax on luxury goods was raised from 10 per cent to 12 per cent in the 1967-8 Kerala Government Budget, see *Reserve Bank of India Bulletin*, Vol. 21, No. 8, (August 1967), p. 1029

[357]There are also specific compounded rates for dealers in cooked food with turnovers between Rs. 20,000 and Rs. 50,000

[358]Except for liquor which is taxable at the rate of 25 per cent

[359]This was raised from 1 per cent to 2 per cent in the proposals contained in the State budget presented on July 3, 1967—see *Reserve Bank of India Bulletin, op. cit.* p. 1030

[360]Government of India, Ministry of Commerce, *Report of the Committee on Sales Tax* (Government of India Press, Faridabad, 1964), p. 15

[361]The rate was raised from 2½ per cent to 3 per cent in the 1967-8 Budget, see *Reserve Bank of India Bulletin, op. cit.* p. 1031

[362]There is an optional provision for payment of tax at specific compounded rates if the annual turnover is between Rs. 15,000 and Rs. 75,000

[363]Items made of gold or silver are taxed at the rate of 2 per cent

[364]The ollowing items have been subjected to first point tax by notification: vegetable ghee, cement, coal, bricks, molasses, arms and ammunition, motor vehicles, motor cycles and motor scooters

[365]*T.E.C.* Vol. III, pp. 5-6.

[366]*Ibid.* p. 6

[367]'Taxation and Economic Development in Asian Countries', *Economic Bulletin for Asia and the Far East*, Vol. 4 (November, 1953), p. 6

[368]*T.E.C.* Vol. III, pp. 37-8

[369]*Ibid.* p. 39

[370]Government of Pakistan, *Taxation Enquiry Committee Report*, Vol. I, (Government of Pakistan Press, Karachi), p. 169

[371]*Ibid.*

[372]Except for agriculturalists who grow and sell their own produce *T.E.C.* Vol. III, p. 64

[373]*T.E.C.* Vol. III, p. 64

[374]*Report of the Andhra Sales Tax Enquiry Committee*, 1956, (Andhra Pradesh Government Press, Kurnool, 1956), p. 5

[375]A.B. Ghosh, *Sales Tax in India*, (Ranjit Printers & Publishers, Delhi, 1954) pp. 48, 105

[376]Many Indians have a rather irrational dislike of middlemen and seem to feel that vertical integration always results in a more efficient distributive system. For instance, P.K. Bhargava has contended that "It (the multiple point sales tax system) encourages integration in production and thus helps in reducing the cost of production." (Sales Tax : The States Milk Cow) *Eastern Economist*, Vol. 49, October 20, 1967, p. 727: Similarly R.N. has contended that "this integration lowers the costs of production and reduces the price by eliminating the middleman's profit", *Indian Public Finance*, (George Allan and Unwin Ltd. London, 1962), p. 131. The difficulty with multi-point sales tax systems is that they provide an incentive towards vertical integration, irrespective of whether such integration is more efficient or not

[377]See P.S. Lokanathan, *Report on the Simplification and Improvement of the Sales Tax System in Madras*, (Government Press, Madras, 1957), p. 11

[378]*Report of the Andhra Sales Tax Enquiry Committee, 1956, op. cit.* p. 4

[379]*Sales Tax System in Andhra Pradesh—A Review, op. cit.* p. 14. See also Lokanathan, *Report on the Simplification and Improvement of the Sales Tax System in Madras, op. cit.* p. 13

[380]Orissa is one of the most rural States in India

[381]*Orissa Taxation Enquiry Committee Report*, (Government of Orissa, Finance Department 1961), p. 86

[382]*Ibid.*

[383]Government of Bombay, *Report of the Sales Tax Enquiry Committee* 1957-8, (Government Central Press, Bombay, 1958), p. 18

[384]*Ibid.* p. 19

[385]Gujarat and Maharashtra formerly comprised the State of Bombay

[386]However, in the light of greater distortions and discriminations accompanying a sales tax levied at the manufacturing or importing level, (see chapter on Types of Sales Taxation), if there is not a considerable administrative advantage

in taxing a particular product at the manufacturing (or exporting) stage the product should be taxed at the retail or wholesale stage.

[387]It is on such luxury items that uniformity of rates among the States is most desirable from the point of view of restricting uneconomic diversion of trade. It is much easier to achieve uniformity of rates (and thereby eliminate the incentive for diversion of trade) if the luxury commodities are taxed by all States at the same stage of sale

[388]John Due, *Sales Taxation* (University of Illinois Press, Urbana, 1957), pp. 373-4

[389]See Table A-9 for a detailed picture of the commodities exempted by the various States.

[390]As has already been pointed out it is somewhat misleading to discuss a wholesale tax system as being either progressive or regressive. Frequently they are progressive over some income ranges, and regressive over other income ranges. The Indian sales tax is probably progressive over the lower 95 per cent of income classes, and regressive only in the highest income classes.

[391]Taking the tax system as a whole the rural sector is seriously undertaxed relative to the urban sector, and I feel that the sales tax systems should attempt not to increase this inequity any more than is necessary, although it is difficult to devise an efficient sales tax system that would actually help to decrease the rural-urban imbalance.

[392]The pervasiveness of this exemption is probably because of its association with Gandhi

[393]The following sources were used in the writing of this section:

(i) *Report of the Committee on Sales Tax*, pp. 13-18

(ii) Indian Law Institute, *Interstate Trade Barriers and Sales Tax Laws in India*, pp. 21-30

(iii) K. Chaturvedi, *The Principles of Sales Tax Laws*, 4th revised edition, pp. 1056-248

[394]Government of India, Ministry of Commerce, *Report of the Committee on Sales Tax*, (Government of India Press, Faridabad, 1964), p. 13

[395]*Ibid*. p. 16

[396]K. Chaturvedi, *op. cit.* p. 1159

[397]Section 51(1)(b) of the Finance Act, 1966 substituted three per cent for two per cant

[398]Even if one feels that the Government should provide special encouragement to labour-intensive industries, this is an arbitrary and inefficient means of doing so

[399]Administratively it is extremely difficult either to provide rebates or to exempt producer goods used in the production of exported items; thus it is desirable to exempt producer goods in general as far as possible

[400]This practice is followed in most of the American States and in many European countries. Only the British purchase tax and the French value-added tax attain almost complete exclusion of producers' goods. See Due, *op. cit.* pp. 370-71

[401]Chaturvedi *op. cit.* p. 1069

Delhi also applies this liberal definition of 'component part'

[402]John F. Due, 'Administrative Criteria in the Establishment of Sales and Excise Tax Structure', in *Problems of Tax Administration in Latin America*, (The John

Hopkins Press, Baltimore, Maryland, 1965), pp. 424-5

[403]Others have rejected the granting of exemptions on fuel used by farmers as an undesirable encouragement to mechanization. See International Bank for Reconstruction and Development, *The Economic Development of Kenya*, (The John Hopkins Press, Baltimore, 1963), p. 291

[404]The following raw materials might be added to the list : fertilizers, sugarcane, bamboo, pulp, oilcakes lac and shellac, coke and coal gas, iron ore, manganese, mica, gypsum, rubber, raw wool, etc. Since some of these products are important items of export, this would also serve to restrict, if not entirely eliminate, the sales tax incidence on such exports.

[405]Government of Bombay, *Report of the Sales Tax Enquiry Committee 1957-8*, (Government Central Press, Bombay, 1958), p. 35

[406]Chaturvedi, *op. cit.* p. 1010

[407]*Ibid.* p. 1014

[408]*Ibid.* p. 1014

[409]*Ibid.* p. 1010

[410]P.S. Lokanathan, *Sales Tax System in Andhra Pradesh—A Review*, (National Council for Applied Economic Research, New Delhi, 1961), p. 41

[411]*T.E.C.* Vol. III, p. 66

[412]Government of Bombay, *Report of the Sales Tax Enquiry Committee, 1957-8, op. cit.* p. 33

[413]See Chaturvedi, *op. cit.* pp. 1065-1240

[414]Excise taxation is only nominal in the prohibition States of Madras and Gujarat

[415]*Report of the Mysore Resources and Economy Committee, 1962*, (Government Press, Bangalore, 1962), p. 338

[416]As I have stated earlier I believe all firewood and charcoal should be exempted

[417]Such exemptions have caused considerable difficulty in the case of the Canadian manufacturers' sales tax. See John F. Due 'Lessons from Canadian Experience' in National Industrial Conference Board, *Consumption Taxes and Tax Reform*, (National Industrial Conference Board, New York, 1953), p. 46

[418]*T.E.C.* Vol. III, p. 66

[419]Indian Law Institute, *Interstate Trade Barriers and Sales Tax Laws in India*, (N.M. Tripathi Ltd. Bombay, 1962), p. 44. It appears that Assam does not tax sales to either the Central or State Government and that Andhra Pradesh does not tax sales to the Central Government. See Chaturvedi, *op. cit.* pp. 57-8

[420]The sales taxes of many other countries also do not tax services

[421]*T.E.C.* Vol. III, p. 35

[422]Neither does the Central Government have any specific power to levy taxes on services

[423]I am referring now to rate differentiation among various commodities subject to sales taxation *within* a State, and not differentiation of rates of taxation on specific commodities between different States

[424]For a description of the sales tax systems of these countries, see John F. Due, *Sales Taxation*, (University of Illinois Press, Urbana, 1957)

[425]However, in its 1967-8 Budget Proposals, the Madras Government proposed an increase in the rate from 2½ to 3 per cent. See Reserve Bank of India, *Reserve Bank of India Bulletin*, Vol. 21 (August 1967), p. 1031

[426]On a few items the last sale by a registered dealer is taxed at the rate of 7 or 10 per cent

[427]K. Chaturvedi, *The Principles of Sales Tax Laws*, 4th revised edition, (Eastern Law House Private Ltd. Calcutta, 1967), pp. 1073-1248

[428]At present, 'declared goods' may be taxed at a maximum rate of 3 per cent, and at only one point

[429]Government of India *Report of the Taxation Enquiry Commission*, Vol. III (Government of India Press, New Delhi, 1955) p. 65 (emphasis mine)

[430]Other than tobacco, liquor and motor spirit

[431]Among others John K. Galbraith contends that in an affluent society no useful decision can be made between luxuries and necessities and that a coverage of a sales tax should extend to all the consumer products and services *The Affluent Society* (Houghton Mifflin Company, Boston, 1958), p. 315

[432]*Federal Tax Reform*, (University of Chicago Press, Chicago, 1960), pp. 36-7

[433]This is one example of the difficulty of any one State rationalizing its rate structure, if the neighbouring States refuse to rationalize their rate structures. Even if the neighbouring State has a rational rate structure, its basic rates may differ from the State in question. In order to completely eliminate diversion of trade the rates of taxation on specific commodities in the various States must be the same, or almost the same.

[434]Chaturvedi, *op. cit.* pp. 993, 1123, 1126

[435]The recent Gujarat Sales Tax Enquiry Committee has recommended that the purchase tax on sugarcane in Gujarat also be levied on the basis of weight instead of the *ad valorem* tax presently levied. The Committee observes that the sugar factories in Gujarat, all of which are co-operative societies, collect sugarcane produced by their members and no final price of the sugarcane is determined at the time of purchase. Instead the price is ultimately determined at the end of the working season so as to give the benefit of profits made by the society to its cane growing members. Thus, it is argued that it is difficult for co-operative sugar factories to determine the (*ad valorem*) tax to be paid by them every quarter, as the final price of sugarcane is frequently not determined until later. *Report of the Sales Tax Enquiry Committee 1967* (Gujarat), (Government Press, Baroda, 1968), p. 44. It might be pointed out that the above mentioned difficulty with an *ad valorem* tax on sugarcane purchased by co-operative sugar factories could just as easily be resolved by levying the purchase tax on an *ad valorem* basis at the end of the working season (on an annual rather than a quarterly basis) when the price of sugarcane is fixed, as by switching to a specific tax on a weight basis.

[436]The Sales Tax Commissioner for Haryana (until recently part of Punjab) has informed me that the specific levy on tractors is being abolished in both Punjab and Haryana

[437]This agreement took place in the National Development Council

[438]The items included in this list will be referred to as 'special' goods in the rest of this section

[439]All of these changes are recorded in the *Reserve Bank of India Bulletin*, Vol. 21 No. 8 (August 1967), pp. 1029-1033; and Vol. 22, No. 5 (May 1968), p. 579

[440]See Table A-10

[441]See Table A-10

All States except Andhra Pradesh and Kerala already include this in one of the fifteen luxury items agreed upon

[442]In general, the amount of discount allowed as a trade practice and the cost of freight or delivery are excluded from the taxable quantum

[443]Assam, Bihar, Madras, Madhya Pradesh, Uttar Pradesh, Maharashtra, and Gujarat. See—Indian Law Institute, *Interestade Trade Barriers and Sales Tax Laws in India*, (N.M. Tripathi Pvt. Ltd. Bombay, 1962), p. 21

[444]Delhi, Punjab, Mysore, Orissa and Rajasthan, *Ibid.* p. 21

[445]P.S. Lokanathan, *Report on the Simplification and Improvement of the Sales Tax System in Madras*, (Government Press, Madras, 1957), p. 28; *Report of the Andhra Sales Tax Enquiry Committee, 1956*, (Andhra Government Press, Kurnool, 1956), p. 13

[446]See Table A-11

[447]See Table A-12

[448]See Table A-13

[449]Government of Orissa, Finance Department, *Orissa Taxation Enquiry Committee Report*, (Orissa Government Press, Cuttack, 1961), p. 86

[450]Kher S.P.: *The Finances of the Mysore State* (Popular Prakashan, Bombay, 1967), p. 126

[451]*Orissa Taxation Enquiry Committee Report* (Popular Prakashan, Bombay, 1967), *op. cit.* p. 81

[452]*Sales Tax System In Andhra Pradesh—A Review*, *op. cit.* pp. 15-18

[453]*Orissa Taxation Enquiry Committee Report*, *op. cit.* pp. 86-7

[454]Kher, *op. cit.* p. 130

[455]*Report of the Andhra Pradesh Sales Tax Enquiry Committee*, 1956, *op. cit.* p. 8

[456]This is accomplished by nominally setting up separate concerns

[457]A similar recommendation is given by M.H. Gopal, who estimates that out of 12-13 lakhs of registered dealers in the country, nearly 60 per cent have transactions of less than Rs. 25,000 per year and account for nearly 7 per cent of the sales tax revenue. He concludes that "the administrative and cost implications suggest their exemption and the concentration of the tax collectors' attention on the remaining 40 per cent, who account for 93 per cent of the revenue", *Studies in Indian Public Finance* by Rao and Raghavan, (Mysore, 1963), p. 87

[458]For instance, in Rajasthan and Madhya Pradesh the minimum limit for an importer or manufacturer is Rs. 5,000, while for any other dealer it is Rs. 15,000. In West Bengal the minimum turnover limit for an importer or manufacturer is Rs. 10,000, while for any other dealer it is Rs. 50,000.

[459]*T.E.C.* Vol. III, p. 11

[460]In Uttar Pradesh the minimum turnover limit for 'every' dealer is Rs. 12,000. However, if a dealer sells any imported goods and the goods are liable to single point tax (under sub-section (2) of Section 3-A of the U.P. Sales Tax Act), then the dealer is liable to tax on the sale of the imported goods irrespective of the quantum of his turnover. See—Chaturvedi, *op. cit.* p. 244

[461]*T.E.C.* Vol. III, p. 11

[462]With a few minor exceptions this is already the practice in the following States: Andhra Pradesh, Assam, Bihar, Kerala, Madras, Mysore, Orissa and Uttar Pradesh

[463]Thus, the 'last point' purchase tax is a wholesale tax and *not* a retail tax, unlike the last point sales tax which is a *retail* tax except in Gujarat and Maharashtra

[464]Table A-21 shows all the purchase taxes levied by the various States

[465]P.S. Lokanathan, *Sales Tax System in Andhra Pradesh—A Review*, (National Council of Applied Economic Research, New Delhi, 1963), p. 20

[466]*Ibid*. p. 6

[467]While this writer has not been able to find any useful data which might help to answer this question, it might be useful to indicate one approach to the problem which might be feasible. In actual practice the only time at which one can attempt to ascertain who bears a commodity tax on a particular commodity is either when the tax is first introduced or when the rate of the tax is changed. In such circumstances if it is possible to obtain some indication of the price paid by the consumer or the price received by the producer, both before and after the introduction (or change in rate) of the purchase tax, then one would have some basis for determining who pays the tax. If the price received by the producer declines immediately after the purchase tax is introduced, this would be some indication that the producer is bearing the burden of the tax. The absolute change in the price the producer receives divided by the absolute amount of the tax on some specified quantity of product, would reveal the percentage of the tax borne by the producer. On the other hand if the price paid by the consumer rises immediately after the tax is introduced, this would be an indication that the consumer bears the tax. To the extent that the decline in the price received by the producer and/or the increase in the price paid by the consumer is less than the amount of the tax, it could be assumed that the middlemen were bearing the tax. Since numerous other factors are operating on both the producer and consumer prices, it would be desirable to have price quotations just before the tax becomes effective and just after it can be assumed to have affected the producer and consumer prices. The greater the tax or the greater the change in the rate of the tax, the more accurate such a method would be. If suitable commodity price data were available such a method might be expected to yield useful results.

[468]Lokanathan, *op. cit.* p. 7

[469]In other words, the demand for most Indian products is (price) elastic

[470]Lokanathan, *op. cit.* pp. 7, 28 and 30

[471]See Table A-21 for a listing of the commodities subject to last point purchase tax in Orissa

[472]*Orissa Taxation Enquiry Committee Report* (Orissa Government Press, Cuttack, 1961), p. 85

[473]It would appear that such discrimination is unconstitutional.
Article 303 of the Constitution prohibits State legislatures from making any law which gives any preference to one State over another or discriminates between the States by "virtue of any entry relating to trade and commerce in any of the lists of the Seventh Schedule".

However, it is important to note that there is no one with a strong incentive to question the legality of this rebate. Obviously, the domestic dealers, who are obtaining the 2 per cent rebate on paddy sold within the State, are not interested in questioning such a provision. However, even the importers in other States,

onto whom the purchase tax is probably passed (and ultimately the consumer in the importing State) have no real incentive to question the legality of the rebate, because the amount of tax borne by them is unlikely to be reduced even if the rebate is declared illegal. The only incentive importers or consumers in other States (the discrimination is primarily against Kerala which imports most of the paddy exported by Andhra Pradesh) would have to question the legality of such a rebate, is if they expect that if the rebate were declared to be illegal, the Andhra Pradesh Government would lower the rate of purchase tax on paddy from 5% to 3% so as to maintain the present effective rate within the State.

[474]There is one exception in each State: turmeric is subject to a purchase tax in Madhya Pradesh, and livestock is subject to a purchase tax in Rajasthan

[475]Section 5A of the Rajasthan Sales Tax Act as reproduced in K. Chaturvedi, *The Principles of Sales Tax Law*, 4th edition (Eastern Law House Private Limited, Calcutta, 1967), p. 1224; Section 7 of the Madhya Pradesh General Sales Tax Act, 1958, is almost identical, see Chaturvedi, p. 1146

[476]With the exception of the purchase tax on sugarcane

[476]Quoted in Planning Commission, *Report of the Prohibition Enquiry Committee*, (Government of India Press, Delhi, 1955), pp. 6-7

[477]Vol. III, p. 133

[478]*Ibid.* p. 131

[479]There is some indication that Gandhiji made prohibition one of the main planks of the Congress programme for largely tactical reasons. It was easier for Congress workers preaching prohibition to move from village to village and meet the people without inviting the wrath of the British Government.—See R.K. Karanjia, "There is Money in the Racket", *Seminar*, Vol. 60 (August 1964), pp. 27-9

[480]See *Report of the Prohibition Enquiry Committee, op. cit.* p. 43. They contend further that "prohibition and not temperance is envisaged in the Article", p. 45

[481]For a similar interpretation, see—*Report of the Madhya Pradesh Prohibition Enquiry Committee, 1951*, (Government of India Printing Press, Nagpur, 1952), p. 18

[482]Madhya Pradesh scrapped prohibition largely for revenue reasons. However, Mysore which had a prohibition policy in force in most of the areas of the State for almost 20 years, scrapped prohibiton in almost all areas of the State with the admission that it had not succeeded in enforcing it. See—*The Hindu*, editorial, October 25, 1967

[483]*T.E.C.* Vol. III, p. 138

[484]*Report of the Prohibition Enquiry Committee, op. cit.* p. 39

[485]*Ibid.* p. 47. For instance, in opposition to the policy of temperance the Committee stated that: "It is generally easier to refrain completely from drinks and drugs than to practise moderation. A moderate drinker is perhaps as much a menace to society if not equally to himself as one who indulges in excessive drinking because both set a bad example to others. While there are less chances of the hard drinker or the addict to do mischief after he is dead drunk the moderate drinker is a greater danger to others because he is a very uncertain person", p. 7

[486]*Second Five-Year Plan*, p. 608

[487]*Ibid.* p. 608

[488]*Third Five-Year Plan*, p. 724

[489]*Report of Madhya Pradesh Prohibition Enquiry Committee*, 1951, p. 76

[490]Tripathy, Ram Niranjan, *Fiscal Policy and Economic Development in India*, p. 138

[491]*Report of the Mysore Resources and Economy Committee*, 1962 (Government Press, Bangalore 1962), p. 352

[492]*Orissa Taxation Enquiry Committee Report*, p. 165

[493]*Report of the Study Team on Prohibition*, Vol. I, p. 75

[494]*Ibid.* p. 75

[495]*Ibid.* p. 52

[496]*Ibid.* p. 245

[497]*Ibid.* p. 571

[498]*Ibid.* p. 242

[499]*Ibid.* p. 247

[500]*Ibid.* p. 541

[501]Except that confirmed alcoholics over 40 years old would be issued permits after submitting to stringent scrutiny

[502]*Ibid.*. p. 396

[503]Excluding the States' share of Union Taxes. See Table A-22

[504]Budget Estimate

[505]Its relative importance is greatest in Jammu & Kashmir where it accounts for more than 28 per cent of the total State tax revenue. See Table A-23

[506]See Table A-2

APPENDIX : TABLES

TABLE A-1: TAX REVENUE OF THE CENTRAL GOVERNMENT

(In Crores of Rupees)

Year	Taxes on Income other than Corporation Tax 1	Corporation Tax 2	Expenditure Tax 3	Estate Duty 4	Wealth Tax 5	Gift Tax 6	Import Taxes 7	Export Taxes 8	Net Customs Revenue 9
1920-21	22.19						23.08	4.89	29.05
1930-31	17.85						37.29	4.60	43.55
1940-41	23.44	4.28					37.56	3.36	41.37
1945-46	105.97	95.18					123.44	3.76	128.72
1950-51	132.73	40.49					107.70	47.36	157.15
1951-52	146.19	41.41					141.59	90.74	231.69
1952-53	141.43	43.80					118.07	55.97	173.75
1953-54	122.84	41.51					119.60	38.53	158.71
1954-55	122.26	37.33		.81			141.06	41.37	184.87
1955-56	131.35	37.04		1.81			127.98	37.76	166.70
1956-57	151.74	51.18		2.11			140.52	28.67	173.21
1957-58	163.70	56.13		2.31	7.04		150.94	26.83	179.99
1958-59	172.01	54.33	.64	2.70	9.66	.98	116.53	20.84	138.29

1959-60	148.85	106.56	.79	2.91	12.11	.80	135.82	14.89	156.11
1960-61	167.38	111.05	.91	3.09	8.15	.89	154.61	13.12	170.03
1961-62	165.39	156.46	.84	4.21	8.26	1.01	198.22	12.69	212.25
1962-63	185.96	221.50	.20	3.94	9.54	.97	238.42	9.60	245.96
1963-64	258.60	274.59	.12	4.67	10.20	1.12	334.25	3.37	334.75
1964-65	266.55	314.05	.44	5.43	10.50	2.22	404.64	2.43	397.50
1965-66	271.80	304.84	.42	6.66	12.05	2.27	547.69	2.14	538.97
1966-67	308.68	328.90	.07	6.26	10.58	1.75	479.21	122.91	585.37
1967-68 (RE)	300.35	319.65	.03	7.25	11.00	1.50	414.98	130.71	522.69
1968-69 (BE)	305.65 +14.00*	324.35 —4.00*	.03	7.50	11.00	1.75	436.26	106.11	519.97 +19.30*

Notes:

1. Net Customs Revenue includes Import duties, Export duties, "Land Customs", Air Customs and miscellaneous, but excludes refunds.
2. "Other taxes and duties" consists of Salt Revenue up to *1945-46*; after *that it* includes Land Revenue, Stamps and Registration and miscellaneous taxes and duties (all of which are derived mainly from the Union Territories).

See also page 317 for notes.

TABLE A-1: *(Continued)*

(In Crores of Rupees)

Year	Union Excise Duties	Tax on Railway Passenger Fares	Other Taxes and Duties	Total Union Tax Revenue	States' Shares of Personal Income Tax	States' Share of Estate Duty	States' Share of Union Excise Duty	States' Share of Tax on Railway Passenger Fares	Total States' Share of Union Tax Revenue	Total Tax Revenue Retained by Union Govern-ment
	10	11	12	13	14	15	16	17	18	19
1920-21	2.85		6.76	60.85						
1930-31	3.77		6.81	72.60						
1940-41	6.80		8.06	86.77						
1945-46	46.92		10.48	387.27						
1950-51	67.54		6.61	404.53	47.52				47.52	357.01
1951-52	85.78		7.78	512.85	52.86				52.86	459.99
1952-53	83.03		2.02	444.03	56.98		16.83		73.81	370.22
1953-54	94.98		2.51	420.57	57.29		15.55		72.84	347.73
1954-55	108.22		2.29	455.78	55.95	.57	15.11		71.63	384.15
1955-56	145.25		2.90	485.07	55.16	1.87	16.57		73.60	411.47
1956-57	190.43		4.40	573.18	58.75	2.41	18.22		79.38	493.76
1957-58	273.62	3.68	9.30	695.77	73.43	2.40	40.22	4.41	120.46	575.33

1958-59	312.94	12.24	11.23	715.12	75.80	2.38	72.99	10.89	162.06	553.06
1959-60	360.65	12.81	10.69	812.28	79.32	2.79	74.70	13.07	169.85	642.44
1960-61	416.35	15.89	15.57	908.92	87.37	2.91	74.68	13.79	178.75	730.14
1961-62	489.31		16.02	1053.75	93.85	3.88	80.65		178.38	875.37
1962-63	598.83		18.14	1284.04	95.27	3.88	124.91		224.06	1060.98
1963-64	729.58		20.21	1633.89	119.29	4.22	135.99		259.50	1374.33
1964-65	801.51		22.49	1820.69	123.77	6.78	127.34		257.89	1562.80
1965-66	897.92		25.74	2060.67	123.34	6.79	145.92		276.05	1784.62
1966-67	1033.78		31.13	2306.52	137.10	4.54	230.91		372.55	1933.97
1967-68 (RE)	1163.48		35.51	2361.46	174.52	6.57	234.64		415.74	1945.72
1968-69 (BE)	1249.65		38.91	2458.81	148.34	6.81	267.53		422.68	2036.13
	+36.43*			+65.73*			—6.84*			

Sources:
1. *Explanatory Memorandums*: *General Budget* 1953-54 to 1968-69.
2. *Report on Currency and Finance* (*Reserve Bank of India*) 1956-57 to 1966-67.
3. *Report of the Taxation Enquiry Committee* 1953-54. Vol. II, pp. 370-71 and 396-99.

Notes:
3. The figures for 1920-21 to 1966-67 are all accounts; figures for 1967-68 are Revised Estimates; and figures for 1968-69 are Budget Estimates.
4. All revenue data are on the basis of collections in the given year. Any arrears are counted only when collected and are included in the year collected, *not* in the year in which the tax liability occurred.

* Expected revenue due to new tax measures; it is not included in the budget estimates.

See also page 315 for notes.

TABLE A-2: STATE TAX REVENUES 1951-52 TO 1968-69(a)

(In Crores of Rupees)

	1951-52	1952-53	1953-54	1954-55	1955-56	Total First Plan (1951-52 to 1955-56)
Land Revenue	48.0	57.4	70.7	72.6	78.0	326.7
Agricultural Income Tax	4.3	4.1	3.8	4.8	7.7	24.6
State Excise	49.4	46.3	44.7	44.6	45.1	230.0
General Sales Tax	54.4	51.2	58.3	66.4	80.1	310.4
Motor Vehicles Tax	10.1	11.8	13.7	13.7	15.9	65.1
Sales Tax on Motor Spirit	4.5	6.0	7.4	7.3	1.5	26.6
Entertainment Tax	6.4	6.1	5.9	6.2	7.3	31.9
Electricity Duty	3.4	3.4	4.8	5.2	5.8	22.6
Stamps and Registration	25.6	26.0	27.7	27.1	29.0	135.4
Profession Tax	.1	.1	.1	.1	.1	.4
Urban Immovable Property Tax	1.8	2.0	1.8	1.8	2.1	9.5
Other Taxes and Duties (b)	19.7	17.3	18.7	16.0	9.7	81.5
Total State Tax Revenue (excluding share of the Union Taxes)	228.2	231.1	257.5	265.6	282.5	1264.8
Share of Income Tax	52.9	57.0	57.3	56.0	55.2	277.9
Estate Duty				.6	1.9	2.5
Share of Union Excise		16.8	15.6	15.1	16.6	64.4
Tax on Railway Fares						
Total State Share of Union Taxes	52.9	73.8	72.8	71.6	73.6	344.8
Total Tax Revenue of States (including share of the Union Taxes)	281.1	304.9	330.3	337.2	356.1	1609.6

TABLE A-2: (*Continued*)

	1956-57	1957-58	1958-59	1959-60	1960-61	Total Second Plan (1956-57 to 1960-61)
Land Revenue	83.2	87.7	91.9	95.2	97.2	455.0
Agricultural Income Tax	7.9	7.8	8.4	8.9	9.5	42.5
State Excise	46.4	46.0	46.9	49.6	53.1	242.0
General Sales Tax	96.6	107.4	111.7	124.4	142.5	582.4
Motor Vehicles Tax	18.6	21.1	24.5	26.4	34.1	124.7
Sales Tax on Motor Spirit	1.0	9.8	12.2	12.5	16.3	51.8
Entertainment Tax	8.6	8.6	10.7	11.3	13.1	52.3
Electricity Duty	6.9	7.2	10.5	12.0	12.5	48.9
Stamps and Registration	31.3	33.1	35.5	40.7	43.3	183.9
Profession Tax	.1	.2	.3	.4	.4	1.5
Urban Immovable Property Tax	2.1	2.2	2.4	2.4	1.0	10.9
Other Taxes and Duties (b)	15.0	20.1	20.0	23.8	19.4	98.2
Total State Tax Revenue (excluding share of the Union Taxes)	316.3	351.5	317.0	407.5	446.0	1893.5
Share of Income Tax	58.8	73.4	75.8	79.8	87.4	377.2
Estate Duty	2.4	2.4	2.4	2.8	2.9	12.8
Share of Union Excise	18.2	40.2	73.0	74.7	74.7	280.9
Tax on Railway Fares		4.4	10.9	13.4	13.8	42.6
Total State Share of Union Taxes	79.4	120.5	162.1	169.9	178.8	713.5
Total Tax Revenue of States (including share of the Union Taxes)	395.7	472.0	537.1	577.4	624.8	2607.0

TABLE A-2: (*Continued*)

	1961-62	1962-63	1963-64	1964-65	1965-66	Third Plan (1961-62 to 1965-66)
Land Revenue	95.2	120.0	123.4	119.8	111.9	570.3
Agricultural Income Tax	9.4	9.6	9.3	10.7	9.9	48.9
State Excise	58.6	62.8	72.9	84.6	96.4	375.3
General Sales Tax	163.1	187.5	245.4	295.1	338.6	1229.7
Motor Vehicles Tax	37.9	46.3	57.4	59.3	64.2	265.1
Sales Tax on Motor Spirit	18.3	21.4	22.9	23.3	29.2	115.1
Entertainment Tax	15.1	18.2	22.6	25.1	29.4	110.4
Electricity Duty	14.9	19.5	27.3	33.4	35.4	130.5
Stamps and Registration	46.5	52.2	61.4	68.5	74.1	302.7
Profession Tax	.5	.9	1.1	.9	.8	4.2
Urban Immovable Property Tax	3.1	3.0	2.1	2.8	3.9	14.9
Other Taxes and Duties (b)	21.0	28.5	35.0	41.3	48.2	174.0
Total State Tax Revenue (excluding share of the Union Taxes)	484.2	569.9	678.6	764.5	841.7	3341.1
Share of Income Tax	93.9	95.3	119.3	123.8	123.3	554.6
Estate Duty	3.9	3.9	4.2	6.8	6.8	25.6
Share of Union Excise	80.7	124.9	136.0	127.3	145.9	614.6
Tax on Railway Fares						
Total State Share of Union Taxes	178.4	224.1	260.5	257.9	276.1	1194.8
Total Tax Revenue of States (including share of the Union Taxes)	662.6	794.0	939.1	1022.4	1117.8	4535.9

TABLE A-2: (*Continued*)

	1966-67	1967-68 RE	1968-69 BE
Land Revenue	89.6	99.2	108.7
Agricultural Income Tax	10.6	10.6	11.3
State Excise	108.9	124.2	137.9
General Sales Tax	406.9	459.0	513.9
Motor Vehicles Tax	69.3	77.8	83.5
Sales Tax on Motor Spirit	35.8	43.5	46.9
Entertainment Tax	35.3	37.0	41.2
Electricity Duty	43.5	47.8	52.4
Stamps and Registration	81.2	88.0	93.3
Profession Tax	1.7	2.0	2.0
Urban Immovable Property Tax	3.0	2.9	3.7
Other Taxes and Duties (b)	51.5	59.2	64.9
Total State Tax Revenue (excluding share of the Union Taxes)	937.3	1051.2	1159.7
Share of Income Tax	137.0	167.1	147.2
Estate Duty	4.5	7.1	7.7
Share of Union Excise	226.9	234.0	263.4
Tax on Railway Fares	—	—	—
Total State Share of Union Taxes	368.4	408.2	418.3
Total Tax Revenue of States (including share of the Union Taxes)	1305.7	1459.4	1578.0

Sources: *Reserve Bank of India Bulletin*: June 1961, p. 860; May 1966, p. 479; August 1967, p. 1035; May 1968, p. 582. Appendix X-I.

TABLE A-2 : (*Continued*)

Notes :

(a) The figures for the year 1951-52 do not include the then part C states, viz. Ajmer, Bhopal, Coorg, Delhi, Himachal Pradesh and Vindhya Pradesh, since separate revenue budgets for those states are available only from 1952-53. For 1953-54, budget estimates of the composite state of Madras have been used. The figures from 1957-58 onwards relate to the reorganized states which exclude Delhi and Himachal Pradesh, which are now Union Territories, and include Kutch which was a part of the composite state of Bombay till 1959-60 and now a part of Gujarat state and also include Jammu & Kashmir. The figures for 1968-69 (Budget Estimate) are before tax changes. The figures for 1967-68 are Revised Estimates; all earlier figures are Accounts.

(b) Includes sugarcane cess, purchase tax on sugar, tax on passengers and goods tobacco duties, tax on prize competition and betting, inter-state transit duties, tax on raw jute, etc.

TABLE A-3: CENTRAL EXCISE TAX REVENUE 1920-21 TO 1968-69

(In Crores of Rupees)

Year	Total Tax Revenue of Government of India	Excise Duties on Salt	Central Excise Revenue (excluding salt)	Central Excise as a per cent of Total Union Govt. Revenue (4) ÷ (2)
1	2	3	4	5
1920-21	60.85	4.65	2.85	4.7
1921-22	66.92	4.09	2.80	4.2
1922-23	72.61	4.58	3.44	4.7
1923-24	71.21	6.98	3.17	4.5
1924-25	74.17	4.69	3.95	5.3
1925-26	72.86	3.89	3.21	4.4
1926-27	72.58	4.14	2.02	2.8
1927-28	72.78	4.19	2.19	3.0
1928-29	76.58	4.90	2.47	3.2
1929-30	77.77	4.14	3.77	4.8
1930-31	72.60	4.04	4.29	5.9
1931-32	75.62	5.27	6.19	8.2
1932-33	83.36	6.41	6.71	8.1
1933-34	76.65	5.65	7.23	9.4
1934-35	82.32	5.18	10.35	10.6
1935-36	84.09	5.43	12.14	14.4
1936-37	82.36	5.77	13.64	16.6
1937-38	82.41	5.73	7.90	9.6
1938-39	81.87	5.42	8.72	10.7
1939-40	90.27	7.88	6.80	7.5
1940-41	86.77	5.28	9.62	11.1

TABLE A-3: *(Continued)*

1	2	3	4	5
1941-42	112.11	7.58	13.33	11.9
1942-43	151.66	8.84	12.91	8.5
1943-44	229.23	6.88	27.69	12.1
1944-45	357.90	6.88	41.29	11.5
1945-46	387.27	8.03	46.92	12.1
1946-47	344.85	6.92	43.70	12.7
1947-48	332.19	.27	38.89	11.7
1948-49	385.18	—	51.66	13.4
1949-50	389.01	—	68.53	17.6
1950-51	444.91	—	71.50	16.1
1951-52	512.85	—	85.78	16.7
1952-53	444.03	—	83.03	18.7
1953-54	420.57	—	94.98	22.6
1954-55	455.78	—	108.22	23.7
1955-56	485.07	—	145.25	29.9
1956-57	573.18	—	190.43	33.2
1957-58	695.77	—	273.62	39.3
1958-59	715.12	—	312.94	43.8
1959-60	812.28	—	360.65	44.4
1960-61	908.92	—	416.35	45.8
1961-62	1053.75	—	489.31	46.4
1962-63	1284.04	—	598.83	46.6
1963-64	1633.89	—	729.58	44.7
1964-65	1820.69	—	801.51	44.0
1965-66	2060.67	—	897.92	43.6

TABLE A-3: (*Continued*)

1	2	3	4	5
1966-67	2306.52	—	1033.78	44.8
1967-68 RE	2361.46	—	1163.48	49.3
1968-69 BE	2458.81	—	1249.65	50.8

Sources: (1) Figures up to 1950-51 are from: Government of India, *Report of the Taxation Enquiry Commission 1953-54*, Vol. II, Government of India Press, New Delhi, 1955, pp. 396-9

(2) Figures after 1950-51 are from Appendix Table A-1.

TABLE A-4: CENTRAL EXCISE REVENUE REALIZATIONS BY COMMODITIES (EXCLUDING SALT), 1920-21 TO 1968-69

(In Lakhs of Rupees)

Sl. No.	Commodities	1920-21	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29
1	Cotton Piece-goods	2,31	2,19	1,87	1,57	2,18	1,47	—	—	—
2	Motor Spirit (including power alcohol)	54	61	65	65	79	77	96	1,21	1,55
3	Kerosene	—	—	92	95	98	98	1,05	97	92
4	Silver	—	—	—	—	—	—	—	—	—
5	Sugar (including khandsari)	—	—	—	—	—	—	—	—	—
6	Matches	—	—	—	—	—	—	—	—	—
7	Mechanical Lighters	—	—	—	—	—	—	—	—	—
8	Steel Ingots	—	—	—	—	—	—	—	—	—
	Total Gross Receipts	2,85	2,80	3,44	3,17	3,95	3,22	2,01	2,18	2,47
	Refunds and Draw-backs	2	9	13	18	7	11	2	1	1
	Total Net Receipts	2,83	2,71	3,31	2,99	3,88	3,11	1,99	2,17	2,46

TABLE A-4: (*Continued*)

(In Lakhs of Rupees)

Sl. No.	Commodities	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37
1	Cotton Piece-goods	—	—	—	—	—	—	—	—
2	Motor Spirit (including power alcohol)	2,81	2,68	3,48	3,94	4,43	4,91	5,32	5,59
3	Kerosene	96	1,44	2,48	2,77	2,81	2,97	2,84	3,01
4	Silver	—	17	23	1	—	—	—	—
5	Sugar (including khandsari)	—	—	—	—	—	97	1,59	2,59
6	Matches	—	—	—	—	—	1,37	2,03	2,05
7	Mechanical Lighters	—	—	—	—	—	—	—	—
8	Steel Ingots	—	—	—	—	—	12	35	34
	Total Gross Receipts	3,77	4,29	6,19	6,72	7,24	10,34	12,13	13,63
	Refunds and Drawbacks	2	6	6	14	18	20	31	29
	Total Net Receipts	3,75	4,23	6,13	6,58	7,06	10,14	11,82	13,34

TABLE A-4: *(Continued)*

(In Lakhs of Rupees)

Sl. No.	Commodities	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43
1	Motor Spirit (including power alcohol)	1,36	1,25	1,13	1,88	1,78	2,63
2	Kerosene	82	68	50	71	65	70
3	Silver	—	—	—	—	—	—
4	Sugar (including khandsari)	3,34	4,24	2,49	3,93	6,73	4,91
5	Matches	2,01	2,18	2,25	2,29	2,96	3,32
6	Mechanical Lighters	—	—	—	—	—	—
7	Steel ingots	37	38	42	50	54	51
8	Tyres	—	—	—	—	35	56
9	Tobacco	—	—	—	—	—	2
10	Vegetable Product	—	—	—	—	—	—
11	Betelnuts	—	—	—	—	—	—
12	Coffee	—	—	—	—	—	—
13	Tea	—	—	—	—	—	—
14	Cloth	—	—	—	—	—	—
	Total Gross Receipts	7,90	8,73	6,79	9,31	13,01	12,65
	Refunds and Drawbacks	23	7	28	13	17	11
	Total Net Receipts	7,67	8,66	6,51	9,18	12,84	12,54

TABLE A-4: *(Continued)*

(In Lakhs of Rupees)

Sl. No.	Commodities	1943-44	1944-45	1945-46	1946-47	1947-48	1948-49	1949-50
1	Motor spirit (including power alcohol)	2,93	2,90	2,33	1,81	1,27	1,33	1,68
2	Kerosene	54	44	35	26	25	20	22
3	Silver	—	—	—	—	—	—	—
4	Sugar (including khandsari)	6,69	6,41	5,70	4,79	4,43	6,31	7,10
5	Matches	4,73	5,56	6,52	4,44	4,82	7,29	7,44
6	Mechanical lighters	—	2	—	—	—	—	—
7	Steel ingots	59	52	52	46	48	46	52
8	Tyres	83	1,15	1,27	75	1,05	1,99	3,58
9	Tobacco	9,65	17,28	20,82	18,95	18,72	25,30	25,88
10	Vegetable Product	94	1,11	1,33	1,29	1,01	1,94	2,18
11	Betelnuts	—	1,31	1,84	85	29	—	—
12	Coffee	—	17	34	38	28	49	50
13	Tea	—	1,50	1,90	2,10	3,05	3,65	2,50
14	Cloth	—	—	—	—	—	89	13,21
15	Miscellaneous	—	22	37	18	12	25	27
	Total Gross Receipts	26,90	38,59	43,29	36,26	35,77	50,09	65,08
	Refunds and Drawbacks	2,75	3,15	55	80	51	18	66
	Total Net Receipts	24,15	35,44	42,74	35,46	35,26	49,91	64,42

TABLE A4: *(Continued)*

(In Lakhs of Rupees)

	Commodities	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60
		1	2	3	4	5	6	7	8	9	10
Basie Duties on:											
1	Motor Spirit	208	207	211	247	987	2305	2523	3085	3252	3540
2	Kerosene	28	26	24	33	93	243	329	306	415	681
3	Sugar	646	843	993	1436	836	1858	2088	4275	5227	5000
4	Matches	807	869	945	932	925	1008	1005	1508	1921	1796
5	Steel Ingots	54	55	61	60	67	69	64	625	729	1034
6	Tyres and Tubes	404	609	440	495	539	553	615	387	716	1044
7	Tobacco	3199	3555	3468	3300	3139	3646	3843	4549	4909	5089
8	Vegetable Products	219	245	275	279	313	382	435	392	386	549
9	Coffee	117	77	59	77	98	93	120	132	134	146
10	Tea	336	431	346	209	319	317	319	386	471	774
11	Cotton Cloth	926	1636	1346	2167	2759	2818	5186	6460	5740	4675
12	Artificial Silk	—	—	—	11	49	218	103	169	196	207
13	Cement	—	—	—	10	211	222	255	1117	1391	1676
14	Footwear	—	—	—	8	82	84	99	97	105	116
15	Soap	—	—	—	16	140	155	185	176	223	210
16	Woollen Fabrics	—	—	—	—	2	53	61	61	86	75
17	Electric Fans	—	—	—	—	5	27	32	46	53	72
18	Electric Bulbs	—	—	—	—	1	25	28	30	33	40
19	Electric Batteries	—	—	—	—	5	73	89	80	98	116
20	Paper	—	—	—	—	21	268	327	539	678	797
21	Paints and Varnishes	—	—	—	—	9	101	117	120	127	137

22	Vegetable Non-essential Oils	—	—	—	—	—	29	530	980	1002	1335
23	Refined Diesel Oils and Vaporising Oils	—	—	—	—	—	16	253	701	960	2450
24	Industrial Fuel Oils	—	—	—	—	—	47	303	324	477	1191
25	Rayon and Synthetic Fibres and Yarn	—	—	—	—	—	—	7	29	86	202
26	Motor Cars	—	—	—	—	—	—	5	32	20	63
27	Coal Gess	162	166	242	254	245	238	218	268	325	316
28	Cess on Copra	—	—	—	—	—	—	—	12	13	10
29	Cess on Oil and Oilseeds	—	—	—	—	—	—	15	91	41	54
30	Silver	—	—	1	—	—	—	—	—	—	—
31	Miscellaneous	44	42	62	72	191	76	121	474	173	512
	Total Gross Revenue	7150	8761	8473	9606	11036	14924	19275	27451	29987	33907
	Less Refunds and Drawbacks	—396	—183	—170	—108	—214	—399	—232	—350	—305	—674
	Total Net Revenue	6754	8578	8303	9498	10822	14525	19043	27101	29682	33233
	Additional Excise Duties on:										
	Sugar	—	—	—	—	—	—	—	—	679	825
	Textiles	—	—	—	—	—	—	—	—	522	1489
	Tobacco	—	—	—	—	—	—	—	—	411	518
	Grand Total Union Excise Duties	6754	8578	8303	9498	10822	14525	19043	27101	31294	36065

TABLE A-4: *(Continued)*

(In Lakhs of Rupees)

Commodity	1960-61 Accounts	1961-62 Accounts	1962-63 Accounts	1963-64 Accounts	1964-65 Accounts	1965-66 Accounts	1966-67 Accounts	1967-68 Revised	1968-69 Budget
	1	2	3	4	5	6	7	8	9
Basic Duties On:									
1 Motor Spirit	40,46	45,51	51,56	67,55	73,77	84,28	87,54	108,00	117,00
2 Kerosene	8,29	12,84	16,55	35,74	39,67	44,25	49,05	64,10	68,00
3 Sugar	44,19	47,23	60,18	52,11	51,05	53,69	89,78	60,11	45,59
4 Matches	18,08	18,48	21,91	20,84	22,82	23,24	25,75	33,19	36,00
5 Steel Ingots	13,14	15,51	4,61	—	—	—	53	1,20	1,40
6 Tyres and Tubes	13,54	14,50	17,04	23,82	25,33	29,58	36,65	39,43	42,92
7 Tobacco	53,73	56,45	64,43	80,66	89,68	98,88	114,98	138,22	150,17
8 Vegetable Products	5,63	6,06	7,81	14,54	12,92	7,65	8,20	7,72	8,20
9 Coffee	1,35	1,92	1,83	2,07	2,28	2,11	2,44	2,96	3,36
10 Tea	7,47	10,57	10,21	15,76	17,06	17,21	14,45	24,90	26,83
11 Cotton Cloth	45,94	47,51	58,37	57,36	55,66	50,49	55,26	46,57	49,70

12 Artificial Silk	2,05	2,91	1,12	1,80	1,77	1,84	—	—	—
13 Cement	18,45	18,32	21,38	26,62	27,31	30,73	32,17	33,19	36,00
14 Footwear	1,52	1,74	2,13	—	—	—	—	—	—
15 Soap	2,38	2,46	3,02	5,01	4,38	4,73	5,18	6,00	6,30
16 Woollen Fabrics	90	1,35	1,93	2,10	1,48	1,30	1,31	1,45	1,60
17 Electric Fans	1,17	1,20	1,52	1,50	1,91	1,98	2,03	1,98	2,16
18 Electric Bulbs	68	88	1,29	1,69	1,55	1,74	1,87	2,08	2,25
19 Electric Batteries	1,88	1,79	2,23	2,87	3,23	3,51	4,43	4,60	5,20
20 Paper	8,38	11,51	13,33	18,08	17,94	18,09	18,14	20,40	21,00
21 Paints and Varnishes	1,40	2,12	2,62	4,09	4,66	4,10	5,06	4,80	5,10
22 Vegetable Non-essential Oils	11,69	10,47	10,54	1,42	1,08	90	78	80	85
23 Refined Diesel Oils and Vaporising Oils	36,38	43,36	46,99	67,23	82,07	106,02	142,67	170,00	188,00
24 Industrial Fuel Oils	13,01	14,49	18,89	27,33	27,19	36,66	38,25	43,00	47,50
25 Rayon and Synthetic Fibres and Yarn	2,82	5,58	9,71	15,16	19,91	20,01	22,51	37,75	44,17
26 Motor Vehicles	8,03	10,30	11,22	14,86	18,03	20,09	22,48	22,20	24,50
27 Asphalt, Bitumen and Tar	2,93	2,52	2,40	2,92	3,32	5,54	4,81	4,00	4,30
28 Aluminium	1,17	1,04	1,69	2,57	2,95	3,73	4,53	12,97	14,75
29 Tin Plates	1,36	1,61	1,96	2,11	2,16	1,96	2,06	2,30	2,50

TABLE A-4 : (*Continued*)

	1	2	3	4	5	6	7	8	9
30 Internal Combustion Engines	1,53	1,34	1,27	1,86	2,34	2,18	1,67	·1,21	1,32
31 Electric Motors	80	1,03	1,26	1,91	2,31	2,79	3,49	3,90	4,40
32 Pig Iron	97	1,11	1,36	1,66	4,08	4,70	4,45	6,00	6,50
33 Soda Ash	2	30	41	49	51	60	61	70	75
34 Caustic Soda	2	41	51	65	80	84	89	1,20	1,25
35 Synthetic Organic Dyestuffs	9	2,15	2,03	1,93	2,50	2,94	3,80	3,90	4,00
36 Cosmetics	7	1,21	1,84	1,71	2,08	2,41	2,76	3,00	3,50
37 Patent and Proprietary Medicines	26	4,19	5,06	5,62	6,50	7,23	8,33	9,00	10,00
38 Plastic Material and Synthetic Resins	8	1,11	1,57	2,48	5,41	5,75	6,63	11,10	14,00
39 Cotton Yarn	13	4,98	8,38	12,67	25,13	25,63	30,87	36,34	40,00
40 Woollen Yarn	2	1,02	1,91	3,52	2,52	2,04	2,76	4,50	4,78
41 Glass and Glassware	11	2,01	2,72	3,12	3,08	3,58	4,02	4,30	4,60
42 Chinaware and Porcelain-ware	3	84	1,11	1,33	1,37	1,43	1,80	2,45	2,75
43 Copper and Copper Alloys	7	1,75	1,83	2,11	2,19	4,63	4,79	4,10	4,40

44 Refrigerators and Air-Conditioning Appliances	2	86	1,49	1,77	2,27	2,93	3,87	4,53	4,93
45 Wireless Receiving Sets	6	1,25	1,21	1,92	2,30	2,76	3,25	3,18	3,40
46 Cycles and parts thereof	91	1,34	1,61	1,72	1,88	—	—	—	—
47 Silk Fabrics	4	4	4	6	5	—	—	—	—
48 Cinematograph Film	75	70	74	1,22	1,17	1,22	1,22	1,26	1,32
49 Glycerine	1	13	12	12	13	14	14	15	19
50 Zinc	1	13	15	16	20	34	25	1,15	1,15
51 Cellophane	6	—	39	59	54	61	85	1,25	1,45
52 Rubber Products	—	26	1,58	76	1,08	1,84	1,91	3,72	4,00
53 Petroleum Products (not otherwise specified)	—	31	62	40	51	1,36	2,21	5,20	5,70
54 Iron and Steel Products	—	—	24,29	38,13	46,19	70,86	68,46	68,00	73,00
55 Jute Manufactures	—	—	5,28	6,50	6,87	7,17	7,05	10,25	10,66
56 Asbestos Cement Products	—	—	89	1,30	1,62	1,77	1,11	1,20	1,30
57 Electric Wires and Cables	—	—	2,57	3,59	4,94	—	5,48	6,50	7,00
58 Gramophone and Gramophone Records	—	—	20	23	9	12	14	10	12
59 Acids (Nitric, etc.)	—	—	90	1,08	99	1,06	59	65	70
60 Gases	—	—	1,70	2,14	49	61	1,01	1,10	1,20

TABLE A-4 : (*Continued*)

(In Lakhs of Rupees)

Commodity	1960-61 Accounts	1961-62 Accounts	1962-63 Accounts	1963-64 Accounts	1964-65 Accounts	1965-66 Accounts	1966-67 Accounts	1967-68 Revised	1968-69 Budget
	1	2	3	4	5	6	7	8	9
1 Plywood				1,16	1,26	1,45	1,50	1,55	1,60
2 Sodium Silicate				5	69	85	1,33	1,40	1,45
3 Lead Unwrought				—	—	—	—	12	12
4 Coal Cess	5,40	9,98	12,26	14,15	13,03	14,08	15,14	15,77	16,60
5 Cess on Copra	9	12	12	12	11	9	11	10	10
6 Cess on Oil and Oilseeds	51	30	28	32	25	21	45	40	1,50
7 Salt Cess	73	84	84	87	84	98	96	98	1,00
8 Cess on Iron Ores				9	29	61	59	62	65
9 Rubber Cess				92	1,64	1,27	1,91	1,50	1,80
10 Handloom Cess on Cotton Fabrics							1,40	6,00	6,40
11 Handloom Cess on Woollen Fabrics							—	4	4
12 Handloom Cess on Rayon or Artificial Silk Fabrics							26	65	65
13 Tea Cess							—	1,40	1,60
14 Cotton Cess								48	62
15 Miscellaneous	4,88	3,71	1,99	3,15	2,39	2,20	1,02	75	80

Total Gross Revenue	385,69	453,65	559,48	694,02	766,31	860,21	994,71	1123,05	1203,95
Less: Refunds and Drawbacks	—2,94	—3,30	—5,40	—7,55	—9,31	—9,22	—11,09	—7,09	—7,48
Total Net Revenue	382,75	450,35	554,08	686,47	757,02	350,99	983,62	1115,26	1196,47
Additional Duties On:									
1 Sugar	10,91	11,22	15,03	14,90	14,68	16,38	19,56	13,55	15,41
2 Textiles	17,01	19,46	20,34	20,78	20,74	20,52	19,81	19,83	21,08
3 Tobacco	5,68	8,26	9,38	7,67	9,29	10,25	11,11	15,05	16,89
Total Additional Duties	33,60	38,94	44,75	43,35	44,71	47,15	50,48	48,43	53,38
Less: Refunds, etc.				—24	—22	—22	—32	—21	—20
Net Additional Duties	33,60	38,94	44,75	43,11	44,49	46,93	50,16	48,22	53,18
Grand Total—Union Excise Duties	416,35	489,31	598,83	729,58	801,51	897,92	1033,78	1116,48	1249,65

Sources:

(1) Government of India, *Report of the Taxation Enquiry Commission 1953-54*. Government of India Press, New Delhi, 1955, pp. 422-25.

(2) Government of India, Reserve Bank, *Report on Currency and Finance for the Year 1956-57* and subsequent Reports up to the year 1966-67 (Bombay, 1957-67).

(3) *Explanatory Memorandum on the Budget of the Central Government* for each year between 1960-61 and 1968-69, Government of India Press, New Delhi.

Notes:

(1) Figures up to 1949-50 are from source (1) above; figures from 1950-51 to 1959-60 are from source (2) above; figures after 1959-60 are from source (3) above.

TABLE A.5: COMMODITY-WISE DETAILS OF UNION EXCISE REVENUE 1966-67 TO 1968-69 (B.E.)

(In Lakhs of Rupees)

Excisable Commodities	Accounts 1966-67			Revised 1967-68			Budget 1968-69		
	Basic Excise	Special Excise	Total	Basic Excise	Special Excise	Total	Basic Excise	Special Excise	Total
	1	2	3	4	5	6	7	8	9
I. Basic Duties, Special Duties and Cesses									
A. Food and Beverages									
Sugar	89,78	—	89,78	60,11	—	60,11	45,59	—	45,59
Tea	12,19	2,26	14,45	21,08	3,82	24,90	22,91	3,92	26,83
Coffee	2,06	38	2,44	2,47	49	2,96	2,80	56	3,36
Total A—Food and Beverages	1,04,03	2,64	1,06,67	83,66	4,31	87,97	71,30	4,48	75,78
B. Tobacco									
Unmanufactured Tobacco	95,77	19,21	1,14,98	53,08	10,07	63,15	55,72	10,55	66,27
Cigars and Cigarettes				62,55	12,52	75,07	69,91	13,99	83,90
Total B—Tobacco	95,77	19,21	1,14,98	1,15,63	22,59	1,38,22	1,25,63	24,54	1,50,17

C. Petroleum Products									
Refined Diesel Oil and Vaporising Oil	1,42,04	16	1,42,20	1,70,00	—	1,70,00	1,88,00	—	1,88,00
Motor Spirit	84,54	2,67	87,21	1,08,00	—	1,08,00	1,17,00	—	1,17,00
Kerosene	49,05	—	49,05	64,10	—	64,10	68,00	—	68,00
Furnace Oil	21,29	—	21,29	24,10	—	24,10	27,50	—	27,50
Diesel Oil not otherwise specified	16,49	8	16,57	18,90	—	18,90	20,00	—	20,00
Asphalt, Bitumen and Tar	4,81	—	4,81	4,00	—	4,00	4,30	—	4,30
Petroleum Products N.O.S.	2,21	—	2,21	5,20	—	5,20	5,70	—	5,70
Total C—Petroleum Products*	3,20,43	2,91	3,23,34	3,94,30	—	3,94,30	4,30,50	—	4,30,50
D. Vegetable Oils and Fats									
Vegetable Products	7,11	1,09	8,20	7,72	—	7,72	8,20	—	8,20
Vegetable Non-essential Oils	78	—	78	80	—	80	85	—	85
Total D—Vegetable Oils & Fats	7,89	1,09	8,98	8,52	—	8,52	9,05	—	9,05

*Revenue from basic duties includes yield from additional duties levied on petroleum products under the Mineral Products (Additional Duties of Excise Customs) Act, 1958.

TABLE A-5: *(Continued)*

	1	2	3	4	5	6	7	8	9
E. Chemicals									
Plastic Materials and Synthetic resins	5,50	1,13	6,63	9,25	1,85	11,10	11,34	2,66	14,00
Patent and Proprietary Medicines	8,33	—	8,33	9,00	—	9,00	10,00	—	10,00
Soap	4,35	83	5,18	5,00	1,00	6,00	5,25	1,05	6,30
Paints and Varnishes	4,34	72	5,06	4,00	80	4,80	4,25	85	5,10
Synthetic Organic Dyestuffs	3,79	1	3,80	3,90	—	3,90	4,00	—	4,00
Cosmetics	2,30	46	2,76	2,50	50	3,00	2,92	58	3,50
Sodium Silicate	1,33	—	1,33	1,40	—	1,40	1,45	—	1,45
Gases	1,01	—	1,01	1,10	—	1,10	1,20	—	1,20
Caustic Soda	89	—	89	1,20	—	1,20	1,25	—	1,25
Soda Ash	61	—	61	70	—	70	75	—	75
Cellophane	85	—	85	1,25	—	1,25	1,45	—	1,45
Acids	59	—	59	65	—	65	70	—	70
Organic Surface Active Agents	60	—	60	62	—	62	65	—	65
Optical Bleaching Agents	—	—	—	45	—	45	45	—	45
Glycerine,	14	—	14	15	—	14	19	—	19
Total E—Chemicals	34,63	3,15	37,78	41,17	4,15	45,32	45,85	5,14	50,99

F. Metals

(a) Iron and Steel									
Iron in any crude form	4,45	—	4,45	6,00	—	6,00	6,50	—	6,50
Steel Ingots	53	—	53	1,20	—	1,20	1,40	—	1,40
Iron and Steel Products	68,46	—	68,46	68,00	—	68,00	73,00	—	73,00
Tin Plates	2,06	—	2,06	2,30	—	2,30	2,50	—	2,50
Total (a)—Iron and Steel	75,50	—	75,50	77,50	—	77,50	83,40	—	83,40
(b) **Non-Ferrous Metals**									
Aluminium	3,78	75	4,53	11,64	1,33	12,97	13,21	1,54	14,75
Copper and Copper Alloys	4,79	—	4,79	4,10	—	4,10	4,40	—	4,40
Zinc	25	—	25	1,15	—	1,15	1,15	—	1,15
Lead Unwrought	—	—	—	12	—	12	12	—	12
Total (b)—Non-Ferrous Metals	8,82	75	9,57	17,01	1,33	18,34	18,88	1,54	20,42
Total F—Metals	84,32	75	85,07	94,51	1,33	95,84	1,02,28	1,54	1,03,82

TABLE A-5: *(Continued)*

	1	2	3	4	5	6	7	8	9
G. Manufactured Goods									
(a) **Textiles and Jute**									
Cotton Fabrics	55,26	—	55,26	46,57	—	46,57	49,70	—	49,70
Cotton Yarn	28,20	2,67	30,87	35,93	41	36,34	40,00	—	40,00
Woollen Fabrics	1,10	21	1,31	1,21	24	1,45	1,33	27	1,60
Woollen Yarn	2,17	59	2,76	3,40	1,10	4,50	3,58	1,20	4,78
Rayon or Artificial Silk Fabrics	1,91	23	2,14	1,17	23	1,40	1,36	26	1,62
Rayon and Synthetic Fibres and Yarn	20,67	1,84	22,51	29,46	8,29	37,75	35,77	8,40	44,17
Jute Manufactures	6,38	67	7,05	9,32	93	10,25	9,69	97	10,66
Total (a)—Textiles and Jute	1,15,69	6,21	1,21,90	1,27,06	11,20	1,38,26	1,41,43	11,10	1,52,53

(b) **Other Manufactured Goods**									
Tyres and Tubes	30,86	5,79	36,65	33,00	6,43	39,43	35,85	7,07	42,92
Rubber Products	1,57	34	1,91	3,10	62	3,72	3,34	66	4,00
Cement	26,91	5,26	32,17	27,66	5,53	33,19	30,00	6,00	36,00
Asbestos Cement Products	1,11	—	1,11	1,20	—	1,20	1,30	—	1,30
Matches	25,75	—	25,75	26,00	—	26,00	26,80	—	26,80
Paper	15,87	2,27	18,14	17,85	2,55	20,40	18,42	2,58	21,00
Glass and Glassware	3,91	11	4,02	4,17	13	4,30	4,45	15	4,60
Chinaware and Procelain-ware	1,80	—	1,80	2,45	—	2,45	2,75	—	2,75
Plywood	1,50	—	1,50	1,55	—	1,55	1,60	—	1,60
Cinematograph Films, exposed	1,02	20	1,22	1,05	21	1,26	1,10	22	1,32
Footwear	—	—	—	2,15	—	2,15	2,70	—	2,70
Gramophones and Records	14	—	14	10	—	10	12	—	12
Total (b)—Other Manufactured Goods	1,10,44	13,97	1,24,41	1,20,28	15,47	1,35,75	1,28,43	16,68	1,45,11
Total G—Manufactured Goods	2,26,13	20,18	2,46,31	2,47,34	26,67	2,74,01	2,69,86	27,78	2,97,64

TABLE A-5: *(Continued)*

	1	2	3	4	5	6	7	8	9
H. Machinery and Transport Equipment									
Motor Vehicles	19,57	2,91	22,48	17,80	4,40	22,20	19,65	4.85	24,50
Electric Batteries and parts thereof	3,90	53	4,43	3,97	63	4,60	4,53	67	5,20
Electric Wires and Cables	5,48	—	5,48	6,50	—	6,50	7,00	—	7,00
Electric Motors	2,96	53	3,49	3,25	65	3,90	3,67	73	4,40
Wireless Receiving Sets	2,44	81	3,25	2,39	79	3,18	2,55	85	3,40
Internal Combustion Engines	1,52	15	1,67	1,10	11	1,21	1,20	12	1,32
Refrigerators and Airconditioning Appliance	2,90	97	3,87	3,40	1,13	4,53	3,70	1,23	4,93
Electric Fans	1,68	35	2,03	1,65	33	1,98	1,80	36	2,16
Electric Bulbs and Tubes	1,75	12	1,87	1,95	13	2,08	2,10	15	2,25
Total H—Machinery and Transport Equipment	42,20	6,37	48,57	42,01	8,17	50 18	46,20	8,96	55,16

I. Cesses on Commodities									
Coal and Coke	15,14	—	15,14	15,77	—	15,77	16,60	—	16,60
Handloom Cess on Cotton Fabrics	1,40	—	1,40	6,00	—	6,00	6,40	—	6,40
Handloom Cess on Woollen Fabrics	—	—	—	4	—	4	4	—	4
Handloom Cess on Rayon or Artificial Silk Fabrics	26	—	26	65	—	65	73	—	73
Rubber	1,91	—	1,91	1,50	—	1,50	1,80	—	1,80
Salt	96	—	96	98	—	98	1,00	—	1,00
Iron Ore	59	—	59	62	—	62	65	—	65
Oils and Oilseeds	45	—	45	40	—	40	50	—	50
Copra	11	—	11	10	—	10	10	—	10
Tea	—	—	—	1,40	—	1,40	1,60	—	1,60
Cotton	—	—	—	48	—	48	62	—	62
Table I—Cesses on Commodities	20,82	—	20,82	27,94	—	27,94	30,04	—	30,04

TABLE A-5: (*Continued*)

	1	2	3	4	5	6	7	8	9
J. Miscellaneous									
Miscellaneous	1,02	—	1,02	75	—	75	80	—	80
Total I—Gross Revenue	9,37,24	56,30	9,93,54	10,55,83	67,22	11,23,05	11,31,51	72,44	12,03,95
Deduct—Refunds and Drawbacks	—10,92	—17	—11,09	—7,53	—26	—7,79	—7,23	—25	—7,48
Total I—Net Revenue	9,26,32	56,13	9,82,45	10,48,30	66,96	11,15,26	11,24,28	72,19	11,96,47
II. Additional Duties									
Sugar	19,56	—	19,56	13,55	—	13,55	15,51	—	15,41
(2) Textiles	19,81	—	19,81	19,83	—	19,83	21,08	—	21,08
(3) Tobacco	11,11	—	11,11	15,05	—	15,05	16,89	—	16,89
Total II—Gross Revenue	50,48	—	50,48	48,43	—	48,43	53,38	—	53,38
Deduct—Refunds, etc.	—32	—	—32	—21	—	—21	—20	—	—20
Total II—Net Revenue	50,16	—	50,16	48,22	—	48,22	53,18	—	53,18

III. Regulatory Duties									
(1) Motor Spirit	33	—	33	—	—	—	—	—	—
(2) Refined Diesel Oil and Vaporising Oil	47	—	47	—	—	—	—	—	—
(3) Diesel Oil not Otherwise Specified	12	—	12	—	—	—	—	—	—
(4) Furnace Oil	27	—	27	—	—	—	—	—	—
Deduct—Total Refunds	—2	—	—2	—	—	—	—	—	—
Total III—Net Revenue	1,17	—	1,17	—	—	—	—	—	—
Grand Total—Union Excise Duties (Net) I+II+III	9,77,65	56,13	10,33,78	10,96,52	66,96	11,63,48	11,77,46	72,19	12,49,65

Source: Government of India, *Explanatory Memorandum on the Budget of the Central Government for 1968-69*, Government of India Press, New Delhi, 1968, pp. 24—29.

Table A-6: LIST SHOWING THE DATES OF IMPOSITION OF EXCISE DUTY

Tariff Item No.	Commodity	Date
5	Salt	1870
6(i)	Motor Spirit	1.4.1917
7	Kerosene Oil	1.4.1922
24	Silver	1.4.1930
6(ii)	Power Alcohol	30.9.1931
1	Sugar	1.4.1934
26	Steel Ingots	,,
38	Matches	,,
39	Mechanical Lighters	,,
16	Tyres	1.4.1941
4I	Unmanufactured Tobacco	1.4.1943
4II(i)	Cigars and Cheroots	,,
13	Vegetable Product	,,
2	Coffee	1.3.1944
3	Tea	,,
4II(2)	Cigarettes	29.2.1948
19	Cotton Fabrics	1.1.1949
15	Soap	1.3.1954
22	Rayon or Artificial Silk Fabrics	,,
23	Cement	,,
36	Footwear	,,
14	Paints and Varnishes	1.3.1955
17	Paper	,,
21	Woollen Fabrics	,,
31	Electric Batteries and Parts thereof	,,
32	Electric Light Bulbs and Fluorescent Lighting Tubes	,,
33	Electric Fans	,,
8	Refined Diesel Oils and Vaporising Oil	1.3.1956
9	Diesel Oil (Not otherwise specified)	,,
10	Furnace Oil	,,
12	Vegetable Non-essential Oils	,,

TABLE A-6: *(Continued)*

Tariff Item No.	Commodity	Date
18	Rayon and Synthetic Fibres and Yarn	1.12.1956
34A	Motor Vehicles (Motor Cars)	,,
11	Asphalt, Bitumen and Tar	1.7.1959
20	Silk Fabrics	1.3.1960
25	Pig Iron	,,
27	Aluminium	,,
28	Tin Plate and Tinned Sheets including Tin, Taggers and Cuttings of such Plates, Sheets or Taggers	,,
29	Internal Combustion Engines	,,
30	Electric Motors, all sorts and parts thereof	,,
35	Cycles and parts of Cycles, other than Motor Cycles	,,
37	Cinematograph Films, Exposed	,,
34	Motor Vehicles	,,
14A	Soda Ash	1.3.1961
14B	Caustic Soda	,,
14C	Glycerine	,,
14D	Synthetic Organic Dyestuffs	,,
14E	Patent or Proprietary Medicines	,,
14F	Cosmetic and Toilet Preparations	,,
15A	Plastics, all sorts	,,
15B	Cellophane	,,
18A	Cotton Yarn	,,
18B	Woollen Yarn	,,
23A	Glass and Glassware	,,
23B	Chinaware and Porcelainware	,,
26A	Copper and Copper Alloys	,,
26B	Zinc	,,
29A	Refrigerating and Airconditioning Appliances and Machinery	,,
33A	Wireless Receiving Sets	,,
11A	Petroleum Products (not otherwise specified)	24.4.1962
14G	Nitric, Hydrochloric and Sulphuric Acids	,,
14H	Gases	,,
16A	Rubber Products	,,
16B	Plywood	,,
22A	Jute Manufactures	,,
23C	Asbestos Cement Products	,,
26AA	Iron or Steel Products	,,
33B	Electric Wires and Cables	,,
37A	Gramophones and Parts thereof	,,

TABLE A-6: (*Continued*)

Tariff Item No.	Commodity	Date
14BB	Sodium Silicate	1.3.1963
27A	Lead	20.8.1965
14DD	Synthetic Organic Products	,,
15AA	Organic Surface—Active Agents (other than Soap)	1.3.1966
1A	Confectionary and Chocolates	1.3.1968
22B	Textile Fabrics Impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials (Artificial Leater Cloth)	,,
22C	Embroidery	,,
33AA	Parts of Wireless Receiving Sets	,,
40	Steel Furniture	,,
41	Crown Corks	,,

Sources: 1. *Central Excise Tariff* (as on 9th September 1967), Appendix I, pp. 364-5
2. *Memorandum Explaining the Provisions in the Finance Bill, 1968*, pp. 22-26.

TABLE A-7: AVERAGE PER UNIT COST OF TAX COLLECTION, 1950-51 TO 1967-68

(Percentage)

Year	Customs Duties	Excise Duties	Income Taxes	Customs, Excise and Income Taxes	All Taxes
1950-51	1.14	6.08	1.41	2.10	2.53
1951-52	0.78	7.63	1.44	2.19	2.51
1952-53	1.25	5.38	1.64	2.19	2.48
1953-54	1.76	3.48	1.97	2.24	2.54
1954-55	1.44	3.40	2.16	2.16	2.49
1955-56	2.23	2.09	2.26	2.19	2.58
1956-57	1.62	2.08	2.10	2.14	2.52
1957-58	1.71	2.05	2.12	1.94	2.38
1958-59	2.48	1.80	2.22	2.07	2.72
1959-60	2.29	1.71	2.09	1.89	2.56
1960-61	2.13	1.66	2.11	1.85	2.47
1961-62	1.68	1.52	1.88	1.64	2.01
1962-33	1.70	1.39	1.61	1.51	1.83
1963-64	1.24	1.23	1.32	1.25	1.46
1964-65	1.16	1.22	1.40	1.25	1.45
1965-66	0.94	1.22	1.69	1.26	1.46
1966-67	0.90	1.14	1.56	1.22	1.41
1967-68	1.16	1.09	1.88	1.32	1.46

Source: *Explanatory Memorandum of the Budgets of the Central Government 1952-53* to *1968-69*.

TABLE A-8: PERCENTAGE INCIDENCE OF CENTRAL EXCISE DUTY ON COMMODITIES FOR THE YEAR 1966-67

Tariff Item No.	Commodity	Incidence: Basic and Special Excise	Incidence: Additional Excise	Incidence: Total
1	2	3	4	5
1.	(i) Sugar V.P.	33.0	7.0	40.0
	(ii) Sugar Khandsari (N)	11.5	1.0	12.5
	Sugar Khandsari (S)	6.8	—	6.8
2.	Coffee	9.7	—	9.7
3.	Tea	8.2	—	8.2
4.I	Unmanufactured Tobacco	91.9	5.7	97.6
II	Cigarettes	55.5	8.3	63.8
III	Cigars and Cheroots	—	—	—
5.	Salt	Exempt		
6.	Motor Spirit	280.1	—	280.1
7.	Kerosene (i) Superior (ii) Inferior	114.8	—	114.8
8.	Refined Diesel Oil	266.4	—	266.5

9.	Diesel Oil N.O.S.	123.4	—	123.4
10.	Furnace Oil	87.1	—	87.1
11.	Asphalt, Bitumen	36.8	—	36.8
12.A	Petroleum Products N.O.S.	13.5	—	13.5
12.	Vegetable Non-Essential (Processed)	2.4	—	2.4
13.	Vegetable Products	3.5	—	3.5
14.	Paints and Varnishes	10.9	—	10.9
14.A	Soda Ash	3.8	—	3.8
14.B	Caustic Soda	4.3	—	4.3
14.BB	Sodium Silicate	23.1	—	23.1
14.C	Glycerine	4.0	—	4.0
14.D	Synthetic Organic Dyestuffs	15.0	—	15.0
14.DD	Synthetic Organic Product	15.0	—	15.0
14.E	Patent or Proprietory Medicines	6.5	—	6.5
14.F	Cosmetics	30.0	—	30.0
14.G	Acids (Sulphuric)	10.0	—	10.0
14.H	Gases (Carbonic)	59.8	—	59.8
15.	Soap	10.1	—	10.1

TABLE A-8: (*Continued*)

1	2	3	4	5
15.A	Plastics	24.0	—	24.0
15.AA	Organic Surface Active Agents	10.0	—	10.0
15.B	Cellophane	20.0	—	20.0
16.	Tyres	45.0	—	45.0
16.A	Rubber Products	24.0	—	24.0
16.B	Plywood	6.3	—	6.3
17.	Paper	17.9	—	17.9
18.	Rayon, Synthetic Fibres and Yarn	31.8	—	31.8
18.A	Cotton Yarn	4.9	—	4.9
18.B	Woollen Yarn	16.5	—	16.5
19.	Cotton Fabrics	18.0	5.6	23.6
20.	Silk Fabrics	Exempt		
21.	Woollen Fabrics	6.0	4.8	10.8
22.	Rayon or Art Silk Fabrics	2.3	1.3	3.6
22.A	Jute Manufactures	7.3	—	7.3
23.	Cement	19.5	—	19.5

23.A	Glass and Glassware	13.8	—	13.8
23.B	Chinaware	12.5	—	12.5
23.C	Asbestos Cement Produc's	10.0	—	10.0
24.	Silver	Exempt		
25.	Iron in any Crude form	14.0	—	14.0
26.	Steel Ingots	13.5	—	13.5
26.A	Copper and Copper Alloys			
	(i) in Crude form	17.0	—	17.0
	(ii) Manufactures	20.0	—	20.0
	(iii) Pipes and Tubes	10.0	—	10.0
26.AA	Iron or Steel Products	16.2	—	16.2
26.B	Zinc	15.0	—	15.0
27.	Aluminium	10.0	—	10.00
27.A	Lead	15.0	—	15.0
28.	Tin Plates and Tinned Sheets	24.0	—	24.0
29.	I.C. Engines	8.2	—	8.2
29.A	Refrigerating and Airconditioning Appliances	28.0	—	28.0
30.	Electric Motors	8.2	—	8.2
31.	Electric Batteries	16.7	—	16.7
32.	Electric Bulbs and P.L. Tubes	9.7	—	9.7

TABLE A-8 : *(Continued)*

1	2	3	4	5
33.	Electric Fans	9.4	—	9.4
33.A	Wireless Receiving Sets	11.3	—	11.3
33.B	Electric Wires and Cables	—	—	—
34.	Motor Vehicles	12.0	—	12.0
35.	Cycle Parts	Exempt	—	—
36.	Footwear and Parts	Exempt	—	—
37.	Cinematograph Films, Exposed	10.0	—	10.0
37.A	Gramophone and Parts	20.9	—	20.9
38.	Matches	136.0	—	136.0
—	All Commodities	23.9	1.2	25.1

Source: Government of India, Ministry of Finance, Department of Economic Affairs, Unpublished information prepared for author.

Notes: (1) These figures should be considered more or less average for each Tariff item (or commodity). Many Tariff items include a number of commodities which are taxed at different rates.

TABLE A-9: SALES TAX EXEMPTIONS

Commodities	Andhra Pradesh	Assam	Bihar	Delhi	Gujarat	Jammu & Kashmir	Kerala	Madhya Pradesh	Madras
	1	2	3	4	5	6	7	8	9
Cereals and Pulses		*		*E	*E	*E			
Bran		*		*E	*E	*E			
Wheat Flour		*		*E	*E	*E			
Bread		*		*	*			*	*
Meat (other than canned, dried or preserved)	*	*E	*	*E	*E	*E		*E	
Eggs	*			*	*	*	*	*	
Fresh Fish	*E	*E	*	*E	*E	*E		*E	
Green Vegetables	*	*E	*6	*E	*	*E	*		
Dried Vegetables				*E		*E			
Fresh Fruits	*	*		*	*	*E	*	*	
Coconut	*				*				
Palm Gur and Palm Products			*					*	
Gur		*			*	*			*
Molass		*		*					
Milk	*	*E	*E	*	*	*E		*	*
Green Tea Leaves		*					*		*
Salt	*	*	*E	*	*	*	*	*	*
Chillies, Tamarind and Turmeric					*E	*			
Betel Leaves				*	*	*			
Betelnuts	*	*							
Ghee						*		*	

TABLE A-9: (*Continued*)

	1	2	3	4	5	6	7	8	9
Edible Oil						*			
Mustard Oil and Rape Oil only		*	*						
Water (other than aerated or mineral, in bottled or sealed container)		*	*	*	*	*12		*	
Cooked Foods					*14		*15	*C	
Bakery Goods (prepared without power)						*			
Achar and Murabba				*E		*E			
Agricultural Implements (other than mechanical)		*	*	*16	*	*16		*	
Pesticides				*		*			
Fertilizer		*		*	*	*		*	
Manures	*				*				
Bullock Carts					*				
Livestock (excluding poultry)	*	*	*		*	*18		*18	
Water Pumping Sets		*							
Sugarcane	*	*21	*						
Raw Jute		*	*						
Cattle Feeds	*	*		*	*	*		*	
Flower and/or Vegetable Seeds					*	*			*
Raw Wool						*			*
Silkworm Cocoons					*				
Cotton		*	*			*		*23	
Cotton Yarn						*			
Cotton Thread				*		*			

Raw Silk									*
Hides and Skins in a raw state						*			
Leather Tanned other than									
in a factory									
Lime and Lime Shell						*	*		
Handloom Cloth	*	*			*	*	*		*
Khadi		*	*		*	*		*	*D
Charkha	*		*	*	*	*		*	*
Products of Village Industries	*	*			*	*		*	
Products of Cottage									
Industries						*		*	
Sales of Co-operative									*C
Societies									*
Handspun Yarn	*						*		
Handloom Carpets									
Handmade Paper				*		*	*	*	*
Cane and Bamboo Handicrafts				*		*			
Earthenware made by									
Kumhars				*		*		*	
Handmade Chikan work									
Footwear made by hand				*	*	*			
Kerosene				*		*			
Matches		*		*	*	*			
Firewood				*	*	*			*
Charcoal				*		*			*
Plain Paper						*C			
Articles and Utensils made									
of Kansar (bell metal)					*				
Slates and Slate Pencils	*	*		*	*	*	*	*	*

TABLE A-9 : *(Continued)*

	1	2	3	4	5	6	7	8	9
School Exercise and Drawing Books		*	*	*		*		*	
Student Instruments		*				*			
School and College Text Books	*								
Government of India Publications	*								
Religious Books	*							*	
All Books		*	*	*		*			*
Periodicals		*	*			*		*	
Book-binding Fabrics		*							
Kumkum					*			*	
Mangalsutra									
Glass Bangles					*			*	
Bangles made of Lac									
Flowers	*				*				
Plantain Leaves					*				*
Shellac			*						
Diagnostic X-ray Photos	*					*		*	*
Blood				*					*C
Artificial Dentures								*	*
Medicines		*26	*26			*		*C	
Opium, Ganga and Bhang							*		
Liquor (27)									*
Country Liquor	*28						*29		*
Motor Spirit	*				*	*		*	*
Electrical Energy (27)	*	*		*	*	*			

TABLE A-9: *(Continued)*

Commodities	Maharashtra	Mysore	Orissa	Punjab	Rajasthan	Uttar Pradesh	West Bengal	Total
	10	11	12	13	14	15	16	17
Cereals and Pulses	*E	*1				*2	*E	8
Bran	*		*					6
Wheat Flour							*	5
Bread		*					*	7
Meat (other than canned, dried or preserved)	*E	*E	*E	*E	*E		*4	13
Eggs	*	*E	*	*E	*E	*E	*	13
Fresh Fish	*E	*E	*5	*E	*E	*E	*	14
Green Vegetables	*	*	*E	*E	*E	*	*E	14
Dried Vegetables			*E	*E	*E		*E	6
Fresh Fruits	*	*	*		*E	*	*	13
Coconut	*C							3
Palm Gur and Palm Products			*					3
Gur	*						*	6
Molass							*	3
Milk	*	*7	*7	*7		*E	*	14
Green Tea Leaves								3
Salt	*	*	*	*E	*		*	15
Chillies, Tamarind and Turmeric	*E	*8						4
Betel Leaves	*	*			*			6
Betelnuts				*		*		3
Ghee								3

TABLE A-9: (*Continued*)

	10	11	12	13	14	15	16	17
Edible Oil				*9	*10	*11		4
Mustard Oil and Rape Oil only							*	3
Water (other than aerated or mineral, in bottled or sealed container)	*	*	*		*13		*	11
Cooked Foods	*C	*C			*C		*1 4	7
Bakery Goods (prepared without power)				*				2
Achar and Murabba								2
Agricultural Implements (other than mechanical)	*	*17	*		*	*	*	12
Pesticides								2
Fertilizer	*			*	*	*	*	10
Manures	*				*	*		5
Bullock Carts	*	*						3
Livestock (excluding poultry)	*		*19		*20		*18	10
Water Pumping Sets					*			1
Sugarcane	*				*			5
Raw Jute							*	3
Cattle Feeds	*22				*	*22		10
Flower and/or Vegetable Seeds	*				*	*	*	8
Raw Wool								2
Silkworm Coccons	*	*						3
Cotton								4
Cotton Yarn								1
Cotton Thread								2
Raw Silk								1
Hides and Skins in a raw state								1

Leather Tanned other than in a factory								1
Lime and Lime Shell								2
Handloom Cloth	*C		*24		*	*		10
Khadi	*C		*		*C	*	*	11
Charkha	*	*	*		*C	*	*	13
Products of Village Industries	*	*			*	*		9
Products of Cottage Industries		*			*			4
Sales of Co-operative Societies		*C						2
Handspun Yarn				*D	*	*		6
Handloom Carpets		*24						1
Handmade Paper		*C			*	*		8
Cane and Bamboo Handicrafts								2
Earthenware made by Kumhars				*				4
Handmade Chikan work						*		1
Footwear made by hand	*			*	*			6
Kerosene				*			*	4
Matches				*			*C	6
Firewood		*25	*		*			7
Charcoal		*25						4
Plain Paper							*	2
Articles and Utensils made of Kansar (bell metal)	*							2
Slates and Slate Pencils	*	*		*	*			11
School Exercise and Drawing Books	*			*	*	*	*	10
Student Instruments	*C			*C				4
School and College Text Books								1
Government of India Publications			*C					2
Religious Books								2

TABLE A-9 : (*Continued*)

	10	11	12	13	14	15	16	17
All Books	*C	*		*	*	*	*	11
Periodicals	*			*	*	*	*	9
Book-binding Fabrics				*	*	*		4
Kumkum	*							4
Mangalsutra	*	*C						3
Glass Bangles	*	*						4
Bangles made of Lac					*			1
Flowers			*	*				4
Plantain Leaves	*							3
Shellac					*			2
Diagnostic X-ray Photos				*C				5
Blood					*			3
Artificial Dentures				*				3
Medicines	*26			*26				6
Opium, Ganga and Bhang					*		*	3
Liquor (27)					*			2
Country Liquor					*	*		5
Motor Spirit	*	*	*	*	*	*	*	11
Electrical energy (27)		*	*	*		*	*	9

Sources: 1. K. Chaturvedi, *The Principles of Sales Tax Laws*, Revised Fourth Edition, Eastern Law House Private Limited, Calcutta, May 1967, pp. 941-1055.

2. *The Jammu & Kashmir Government Gazette*, Vol. 78, 7-b, Srinagar, the 15th May 1965, pp. 5-9.

Note: The exemptions listed in this Table are based on the State sales tax laws as of the beginning of 1967.

* Indicates exemption which is unconditional unless otherwise specified

C. Exemption granted only under certain conditions

D. Indicates exemption is granted only to dealers dealing exclusively in this item

E. Indicates exemption is granted except when sold in sealed containers
1. Exemption is granted when sold by Government
2. Exemption is granted where dealers' turnover does not exceed Rs. 25,000 annually
3. Excludes poultry
4. Except when cured or frozen
5. Dried fish
6. Excludes potatoes and onions
7. Only fresh milk is exempt
8. Green chillies only
9. Exempt only if produced by indigenous *kohlus*
10. Exempt only if tax on seeds used in making the oil has been paid
11. Exempt only if pressed on *ghanis*
12. Includes aerated water
13. Includes distilled water, excludes mineral water
14. Exempt only when amount sold is less than a specified amount per person
15. Exemption is granted where dealers' turnover does not exceed Rs. 20,000 annually
16. Exemption includes mechanized agricultural implements
17. Exemption includes only agricultural implements not produced in a factory
18. Includes poultry
19. Poultry only
20. Exemption does not include sheep, goats or camel
21. Only when sold to a sugar factory
22. Includes poultry feed
23. Unginned cotton only
24. When sold at less than a specified price
25. When sold for domestic use
26. Only specified medicines are exempt
27. This item is usually taxed under a separate statute
28. Exempts only toddy and neera
29. Exempts only toddy

TABLE A-10: COMMODITIES SUBJECT TO HIGHER RATES OF SALES TAX
(Percentage Rates of Tax)

Commodity	Andhra Pradesh	Assam	Bihar	Delhi	Gujarat	Jammu & Kashmir	Kerala[1]	Madhya Pradesh	Madras[2]
	1	2	3	4	5	6	7	8	9
Motor Vehicles	10	10	10	10	10	10	10	10	11
Motor Cycles and Motor Scooters	10	10	10	10	10	10	10	10	11
Refrigerator and Air-conditioning Plants	10	10	10	10	10	10	10	10	11
Gramophones and Records	10	10	10	10	8+3	10	10	10	11
Clocks Time-pieces	10	10	10	10	8+3	10	10	10	11
Wireless Receiving Sets	10	10	10	10	10	10	10	10	11
Cinematographic Equipment	10	10	10	10	10	10	10	10	11
Photographic Equipment	10	10	10	10	10	10	10	10	11
Binoculars	10	10	10	10	12	10	10	10	11
Iron and Steel Safes	10	10	10	10	10	10	10	10	11
Arms, including Rifles, Revolvers	10	10	10	10	12	10	10	10	11
Cigarette Cases and Lighters	10	10	10	10	12	10	10	10	11
Dictophone	10	10	10	10	10	10	10	10	11
Sound Transmitting Equipment	10	10	10	10	10	10	10	10	11
Typewriters, Calculating and Duplicating Machines	10	10	10	10	10	10	10	10	11
Tyres and Tubes	7	10	10	10	10	10	7	10	11

Thermosflasks		10	10	9	10	10	7	10	6½
Iron and Steel Furniture	7	10	10	9	10			10	
Foam, Rubber Sheets, Cushions, Pillows, and similar articles	7	10	10		12	10	7	7	6½
Cutlery (table)	4	7	7	9	10+3	10	7	10	
Furniture other Iron & Steel	7	10	10	7		—	5	10	
Stainless Steel Articles	5	10	10		10+3		5	10	
Cosmetics	5	7	7	8	10+3	10	7	7(5)	6½
Glassware and Chinaware	5	7	7	7	10	10	7	10	
Pile Carpets		10		8	12			10	
Sanitary Goods and Fittings		5	7	7		10	5	10	
Fireworks	7	5			10		7	10	6½
Electrical Goods (4)	7	7	7	9	6		5	7	6½
Domestic Electrical Appliances					10+3	10			
Perambulators		10	10		10				
Hydrogenated Oil including Vanaspati	5	5	7		8		5		6½
Dyes, Paints, Glue, Sand-Paper, Turpentine Oils etc.(7)	5	5	7		10		7	10	
Ivory Articles and Articles made with Ivory		10	7		10+3			7	
Adrema Machines			10						
Electroplated Nickel Silver-Goods		10	7	5				7	
Leather Goods but not including Footwear		5	7	7		10	5	7(6)	
Eatables Packaged in Sealed Containers		7			6+3		5	7	

TABLE A-10: *(Continued)*

	1	2	3	4	5	6	7	8	9
Precious Stones	7	5	10		8		5	7	3½
Jewellery			10		8		5	7	
Ladies Handbags		7	7		8+3			7	
Aerated Waters and Beverages when sold in Sealed or Corked Bottles or Jars					10			7	
Ice					10				
Lifts (Hydraulic and Electric)					10				
Furs					12			7	
Gold and Silver Filigree					12				
Marble and Marble Articles	7							7	
Rubber Products	7	7					7		
Plastics			10						
Coffee in Leaf or Powder	5				8		5	7	5½
Aeroplanes and Spare parts					12				
Solvent Oil					10				
Photographs				8					
Ganga, Bhang and Opium	3				15				
Country Liquor,	5				45				
Liquor (Others)	25		12		45	10	50		
Bicycles, Tricycles	3	7	7	5	7	7	5	6	5½
Playing Cards	7	7							
Matches		5	7				2	7	
Cement	5	5	7		7		7	7	5½
Packaged Tea	4		7				5	7	5½
Fountain Pens			7		5+3		5		

TABLE A-10: (*Continued*)

Commodity	Maharashtra	Mysore	Orissa	Punjab	Rajasthan	Uttar Pradesh	West Bengal	Number of States Taxing at rates in excesses of 7 per cent
	10	11	12	13	14	15	16	17
Motor Vehicles	11	11	10	10	10	10	10	16
Motor Cycles and Motor Scooters	11	11	10	10	10	10	10	16
Refrigerator and Air-conditioning Plants	12	11	10	10	10	10	10	16
Gramophones and Records	8+3	11	10	10	10	10	10	16
Clocks, Time-pieces	8+3	11	10	10	10	10	10	16
Wireless Receiving Sets	10	11	10	10	10	10	10	16
Cinematographic Equipment	10	11	10	10	10	10	10	16
Photographic Equipment	10	10	10	10	10	10	10	16
Binoculars	10	11	10	10	10	10	10	16
Iron and Steel Safes	10	11	10	10	10	10	10	16
Arms, including Rifles, Revolvers	10	11	10	10	10	10	10	16
Cigarette Cases and Lighters	10	11	10	10	10	10	10	16
Dictophone	10	11	10	10	10	10	10	16
Sound Transmitting Equipment	10	11	10	10	10	10	10	16
Typewriters, Calculating and Duplicating Machines	10	11	10	10	10	10	10	16
Tyres and Tubes	11	11	10	10	10	10	10	14

TABLE A-10: (*Continued*)

	10	11	12	13	14	15	16	17
Thermosflasks	11		10	10	10	10		11
Iron and Steel Furniture	10	11	10	10		10		10
Foam Rubber Sheets, Cushions, Pillows and similar articles	12	11	10			10	10	9
Cutlery (table)	10+3		7	10	10	10		8
Furniture other Iron & Steel	10	11		8	10	8		8
Stainless Steel Articles	3+3	4½	10	10	10			7
Cosmetics		8½	7	10	10	10		7
Glasware and Chinaware	8		7	8	10	10		7
Pile Carpets		6½	7	10	10	2		6
Sanitary Goods and Fittings		6½	7	8	10	8		5
Fireworks	10	8½	7		10			5
Electrical Goods (b)	6	6½	7	10	10	10		4
Domestic Electrical Appliances	11+3							3
Perambulators			7					3
Hydrogenated Oil including Vanaspati	10	6½	6		10	7	5	3
Dyes, Paints, Glue, Sand-Paper, Turpentine Oils etc. (7)			7		10	6		3
Ivory Articles and Articles made with Ivory	10+3		5		5	5		3
Adrema Machines			10					2

Electroplated Nickel Silver-Goods			10					2
Leather Goods but not including Footwear		5½		8	7			2
Eatables Packaged in Sealed Containers	5+3				10			3
Precious Stones	6	5½	7	5				2
Jewellery	6		7	5				2
Ladies Handbags	8+3		7					2
Aerated Waters and Beverages when sold in Sealed or Corked Bottles or Jars	10							2
Ice	10							2
Lifts (Hydraulic and Electric)	10	4½						2
Furs	15		7					2
Gold and Silver Filigree	10		7					2
Marable and Marble Articles	10+3	3½	7					1
Rubber Products						10		1
Plastics						7	7	1
Coffee in Leaf or Powder	6	5½						1
Aeroplanes and Spare parts		6½	7					1
Solvent Oil								1
Photographs								1
Ganga, Bhang and Opium	12	12½			10	7		4
Country Liquor,								1
Liquor (Other)		25		10	10			8
Bicycles, Tricycles	7	5½	7	6	7	7	6	0
Playing Cards		7½	7					1

TABLE A-10: *(Continued)*

	10	11	12	13	14	15	16	17
Matches					7	7	5	0
Cement	6	$6\frac{1}{2}$			7	7		0
Packaged Tea	6	$5\frac{1}{2}$				7		0
Fountain Pens		$5\frac{1}{2}$	7		7	7		0

Sources:
1. K. Chaturvedi, *The Principles of Sales Tax Laws*, Revised Fourth Edition, Eastern Law House Private Limited, Calcutta, May 1967, pp. 1056—1248.
2. *Schedule of Rates of Sales Tax in Delhi* as amended up to July 1, 1966.
3. *The Jammu & Kashmir Government Gazette*, Vol. 78, No. 7-b, 15th May, 1965, pp. 1—4.

Notes:
1. The rate of tax on luxury goods was increased from 10 per cent to 12 per cent in the 1967-68 State Budget.
2. The rate of General Sales Tax on luxury goods in Madras was increased from 11 per cent to 12 per cent in the 1967-68 State Budget.
3. The Rajasthan State Budget for 1967-68 proposed an increase in the rate tax on a number of luxuries from 10 per cent to 12 per cent, and an increase to 15 per cent for motor cars, refrigerators and airconditioners.
4. Most States include domestic electrical appliances "in electrical goods".
5. Perfumes are taxed at the rate of 10 per cent.
6. Includes footwear
7. Some of the States do not tax one of these products at this rate.
8. If more than a certain price.
9. If no rate is given in the Table for a particular commodity in a State, it usually means that the commodity is taxed at the general rate in the State, although in a few cases the commodity may be exempt in a particular State, or in the case of liquor, subject to tax under another Act.
10. The Notes given in this Table are for 1967.

TABLE A-11 : TAXABLE ANNUAL TURNOVER LIMITS (EXISTING IN 1967)

(Rs.)

State	Manufacturer	Importer	Other Dealers	Special limit for cooperative societies dealing exclusively in goods produced or manufactured by such society	Special limit for non-resident dealers and/or casual traders
Andhra Pradesh (1)	10,000	10,000	10,000	—	Any turnover
Assam	12,000	12,000	12,000	—	—
Bihar	15,000	15,000	15,000	—	—
Gujarat	20,000	20,000	30,000	—	—
Jammu & Kashmir	10,000	no-minimum	10,000	—	—
Kerala (2)	10,000	10,000	10,000 (dealer in 20,000 cooked foods)	—	Any turnover
Madhya Pradesh	5,000[3]	5,000	15,000	25,000	—
Madras (4)	10,000	10,000	10,000	—	Any turnover
Maharashtra (5)	10,000	10,000	30,000	—	—
Mysore (6)	10,000	10,000	10,000	—	—
Orissa	10,000	10,000	10,000	—	Any turnover
Punjab	nil	10,000	40,000[7]	—	—
Rajasthan	5,000	5,000[8]	15,000	25,000	Any turnover
Uttar Pradesh (9)	12,000	12,000	12,000	—	—
West Bengal	10,000	10,000	50,000	—	—
Delhi	10,000	10,000	30,000	—	—

TABLE A-11 : (*Continued*)

Sources: (1) K.R. Chaturvedi, *The Principles of Sales Tax Laws*, Fourth Revised Edition, Eastern Law House Private Ltd., Calcutta, 1967, pp. 225-244, 1056-1248.

(2) Government of Gujarat, *Report of the Sales Tax Enquiry Committee 1967 (Gujarat)*, Government Press, Baroda, 1968, pp. 256-7.

Note: (1) The turnover of any goods subject to single point tax (under the First or Second Schedule) is taxable irrespective of the total quantum of turnover.

(2) Dealers in cooked food may elect to pay tax at compounded rate of between Rs. 360/- and Rs. 720/- if their taxable turnover is not more than Rs. 50,000. Other dealers may elect to pay tax at compounded rate of one per cent of taxable turnover if the taxable turnover is less than Rs. 15,000/-, and at one and a half per cent if the taxable turnover is more than Rs. 15,000/- but less than Rs. 25,000/-.

(3) The taxable quantum for other dealers (Rs. 15,000) applies to manufacturers of cooked food.

(4) The turnover of any goods subject to single point tax (goods included in the First or Second Schedule) is taxable irrespective of the total quantum of turnover. For some dealers dealing exclusively in certain food products other than rice, wheat, food-grains and milk, the taxable turnover is Rs. 30,000. Any dealer whose annual turnover is between Rs. 10,000 and Rs. 50,000 may elect to pay tax at a compounded rate of between Rs. 120/- and Rs. 540/-.

(5) Provided that the value of *taxable* goods sold is Rs. 2,500 or more.

(6) May elect to pay tax at compounded rate of Rs. 15 per month if turnover is less than Rs. 15,000; Rs. 20 per month if less than Rs. 20,000; and Rs. 25 per month if less than Rs. 25,000.

(7) The turnover limit for food establishments (including *Tandoor*, *Loh*, *Dhaba*, hotel, restaurant, *halwai* shop, bakery or other similar establishment wherein Indian food preparations, including tea, are served is Rs. 25,000.

(8) The turnover limit for manufacturers of cooked food is Rs. 15,000; the limit for manufacturers of certain specified goods is Rs. 10,000.

(9) The turnover of any goods imported from outside Uttar Pradesh which are subject to the single point tax is taxable irrespective of the quantum of turnover.

TABLE A-12: DISTRIBUTION OF DEALERS IN TERMS OF TURNOVER AND TAX REALIZED IN MADRAS IN 1956-57

Sl. No.	Turnover Bracket	Rs. 10,000 to Rs. 25,000	Rs. 25,000 to Rs. 50,000	Over Rs. 50,000	Total
1.	Number of assessees	30,570	9,589	13,248	53,407
2.	Assessees in the turnover bracket as a per cent of total assessees	57.3%	17.9%	24.8%	100%
3.	Tax collected in Rs. (Lakhs)	67.2	62.1	775.0	904.3
4.	Tax collected from each turnover bracket as a per cent of total sales tax revenue	7.4%	6.8%	85.8%	100%

Source: P.S. Lokanathan, *Report on the Simplification and Improvement of the Sales Tax System in Madras*, Government Press, Madras, 1957, p. 7.

TABLE A-13: DISTRIBUTION OF DEALERS SUBJECT TO SINGLE AND MULTIPOINT LEVIES IN TERMS OF TURNOVER AND TAX REALIZED IN ANDHRA PRADESH IN 1959-60

	Below Rs. 10,000	Rs. 10,000 to Rs. 25,000	Rs.25,000 to Rs. 50,000	Rs. 50,000 to Rs. 1,00,000	Rs. 1,00,000 to Rs. 2,00,000
1. Number of assessees	12,774	16,608	6,958	6,0003	3,831
2. Assessees in the turnover bracket as a per cent of total assessees	25%	32%	14%	12%	7%
3. Tax collected in Rs.	9,28,192	38,35,873	37,63,851	63,83,593	84,25,709
4. Tax collected from each turnover bracket as per cent of total sales tax revenue.	1%	4½%	4½%	7%	10%

	Rs. 2,00,000 to Rs. 3,00,000	Rs. 3,00,000 to Rs. 4,00,000	Rs. 4,00,000 to Rs. 5,00,000	Above Rs. 5,00,000	Total
1. Number of assessees	1,558	832	450	2,427	51,441
2. Assessees in the turnover bracket as a per cent of total assessees	3%	1½%	1%	4½%	100
3. Tax collected in Rs.	55,69,395	40,91,280	27,33,637	8,42,46,635	8,42,46,165
4. Tax collected from each turnover bracket as per cent of total sales tax revenue.	6½%	4¾%	3¼%	58.1/5%	100

Source: P.S. Lokanathan, *Sales Tax System in Andhra Pradesh—A Review*, National Council of Applied Economic Research New Delhi. 1963. Table 1, p. 52.

TABLE A-14: CLASSIFICATION OF DEALERS ACCORDING TO TURNOVER TAX PAID IN GUJARAT (1965-66)

Turnover groups (Rs.)	No. of Dealers		Turnover		Tax Paid	
	Number	Percentage	Amount (Rs. in Lakhs)	Percentage	Amount (Rs. in Lakhs)	Percentage
1. 1 to 10,000	4,897	7.48	258	.11	6.13	.33
2. 10,001 to 20,000	6,008	9.17	892	.39	14.50	.77
3. 20,001 to 30,000	5,589	8.54	1,373	.59	17.46	.94
4. 30,001 to 40,000	4,252	6.49	1,426	.62	25.90	1.39
5. 40,001 to 50,000	3,672	5.61	1,635	.71	35.16	1.88
6. Total (1—5)	24,418	37.29	5,585	2.42	99.14	5.31
7. 50,001 to 100,000	10,879	16.61	7,952	3.43	106.53	5.71
8. 100,001 to 200,000	9,752	14.89	14,141	6.11	166.46	8.92
9. 200,001 to 300,000	5,308	8.11	13,745	5.94	114.96	6.16
10. 300,001 to 400,000	2,238	3.50	8,110	3.50	81.22	4.35
11. 400,001 to 500,000	1,558	2.38	6,844	2.59	77.49	4.15
12. (Total 8 to 11)	18 911	28.88	42,840	18.50	440.13	23.58
13. 500,001 to 1,000,000	3,212	4.91	22,460	9.70	205.63	11.01
14. More than 1,000,000	3,131	4.78	152,709	65.95	1015.67	54.39
Total (13 to 14)	6,343	9.69	175,170	75.65	1221.30	65.40
Other dealers	4,932	7.53				
Grand Total	65,483	100.00	231,546	100.00	1867.11	100.00

Source: Government of Gujarat, *Report of the Sales Tax Enquiry Committee 1967* (Gujarat), Government Press, Baroda, 1968, p. 197.

TABLE A-15 : STATE SALES TAX REVENUES : 1951-52 TO 1968-69

Year	Total Sales Tax Revenues (excluding share of the Union Taxes) (Rs. in Crores)	General Sales Tax Revenue (Rs. in Crores)	Revenue from Sales Tax on Motor Spirit (Rs. in Crores)	Total State Sales Tax Revenue (Rs. in Crores)	General Sales Tax Revenue as a per cent of Total State Tax Revenue (2/1)	Sales Tax on Motor Spirit as a per cent of Total State Tax Revenue (3/1)	Total Sales Tax Revenue as a per cent of Total State Tax Revenue (4/1)
1951-52	228.2	54.4	4.5	58.9	23.8	2.0	25.8
1952-53	231.1	51.2	6.0	57.2	22.2	2.6	24.8
1953-54	257.5	58.3	7.4	65.7	22.6	2.9	25.5
1954-55	265.6	66.4	7.3	73.7	25.0	2.7	27.7
1955-56	282.5	80.1	1.5	81.6	28.4	0.5	28.9
Total First Plan :	1264.8	310.4	26.6	337.0	24.5	2.1	26.6
1956-57	316.3	96.6	1.0	97.6	30.5	0.3	30.8
1957-58	351.5	107.4	9.8	117.2	30.6	2.8	33.4
1958-59	375.0	111.7	12.2	123.9	29.8	3.3	33.1
1959-60	407.5	124.4	12.5	136.9	30.5	3.1	33.6
1960-61	446.0	142.5	16.3	158.8	32.0	3.7	35.7
Total Second Plan :	1893.5	582.4	51.8	634.2	30.8	2.7	33.5
1961-62	484.2	163.1	18.3	181.4	33.7	3.8	37.5
1962-63	569.9	187.5	21.4	208.9	32.9	3.8	36.7
1963-64	678.6	245.4	22.9	268.3	36.2	3.4	39.6
1964-65	764.5	295.1	23.3	318.4	38.6	3.0	41.6
1965-66	841.7	338.6	29.2	367.8	40.2	3.5	43.7
Total Third Plan :	3341.1	1229.7	115.1	1344.8	36.8	3.4	40.2
1966-67	937.3	406.9	35.8	442.7	43.4	3.8	47.2
1967-68 R.E.	1051.2	459.0	43.5	502.5	43.7	4.1	47.8
1968-69 B.E.	1169.7	513.9	46.9	560.8	43.9	4.0	47.9

Source : Table **A-2**

TABLE A-16: SALES TAX REVENUE OF THE STATES, 1965-66 AND 1967-68 (B.E.)

(Rs. in Crores)

	State	1965-66				1967-68 (B.E.)			
		Total State Tax Revenue (excluding States' share of Union Taxes)	General Sales Tax Revenue	Revenue from Sales Tax on Motor Spirit	Total Sales Tax Revenue	Total State Tax Revenue (excluding States' share of Union Taxes)	General Sales Tax Revenue	Revenue from Sales Tax on Motor Spirit	Total Sales Tax Revenue
1.	Andhra Pradesh	69.26	22.32	2.27	24.59	68.09	30.34	2.80	33.14
2.	Assam	21.61	5.09	2.90	7.99	27.22	5.50	4.67	10.17
3.	Bihar	56.63	19.90	1.53	21.43	64.69	23.86	2.20	26.06
4.	Gujarat	50.89	25.48	1.50	26.98	68.23	37.82	2.25	40.07
5.	Jammu & Kashmir	3.16	.50	.26	.76	5.12	.82	.43	1.25
6.	Kerala	38.56	18.04	.26	18.90	52.23	20.97	2.96	23.93
7.	Madhya Pradesh	48.96	18.55	1.42	19.97	62.53	26.40	1.75	28.15
8.	Madras	83.21	37.10	3.85	40.95	102.36	49.11	5.20	54.31
9.	Maharashtra	122.43	64.56	6.03	70.59	172.24	93.96	6.85	100.81
10.	Mysore	46.45	19.39	.15	19 54	61.59	26.30	2.81	29.11
11.	Orissa	19.75	9.30	.63	9.93	24.95	12.26	.95	13.21
12.	Punjab (1)	55.91	18.58	1.31	18.89	43.09	14.36	.71	15.07
13.	Haryana (formerly part of Punjab)	—	—	—	—	21.54	7.93	.77	8.70
14.	Rajasthan	35.43	—	—	14.17	46.48	—	—	18.64
15.	Uttar Pradesh	95.29	24.85	2.47	27.32	106.01	32.04	2.75	34.79
16.	West Bengal	94.11	40.74	4.64	45.38	106.58	50.34	6.62	56.96
	Total	841.7	338.6	29.2	367.8	997.6	450.7	43.7	494.4

Source: (1) *Reserve Bank of India Bulletin*, Vol. 21, August 1967, pp. 1039-1046.

Note: (1) 1965-66 figures are for the composite State of Punjab; 1967-68 (B.E.) figures are for the new State of Punjab (figures for Haryana are listed separately).

TABLE A-17: SALES TAX REVENUE OF THE STATES AS PERCENTAGE OF TOTAL STATE TAX REVENUE, 1965-66 AND 1967-68 (B.E.)

	1965-66 (Accounts)			1967-68 (Budget Estimate)		
	General Sales Tax Revenue as a per cent of Total State Tax Revenue	Motor Spirit Sales Tax Revenue as a per cent of Total State Tax Revenue	Total Sales Tax Revenue as a per cent of Total State Tax Revenue	General Sales Tax Revenue as a per cent of Total State Tax Revenue	Motor Spirit Sales Tax Revenue as a per cent of Total State Tax Revenue	Total Sales Tax Revenue as a per cent of Total State Tax Revenue
Andhra Pradesh	32.2	3.3	35.5	44.6	4.1	48.7
Assam	23.6	13.4	38.0	20.2	17.2	37.4
Bihar	35.1	2.7	37.8	36.9	3.4	40.3
Gujarat	50.1	2.9	53.0	55.4	3.3	58.7
Jammu & Kashmir	15.8	8.2	24.0	16.0	8.4	24.4
Kerala	46.8	0.7	47.5	40.1	5.7	45.8
Madhya Pradesh	37.9	2.9	40.8	42.2	2.8	45.0
Madras	44.6	4.6	49.2	48.0	5.1	53.1
Maharashtra	52.7	4.9	57.6	54.6	4.0	58.6
Mysore	41.7	0.3	42.0	42.7	4.6	47.3
Orissa	47.1	3.2	50.3	49.1	3.8	52.9
Punjab(1)	33.2	2.3	35.5	33.3	1.6	34.9
Haryana (formerly part of Punjab)	—	—	—	36.8	3.6	40.4
Rajasthan	—	—	40.0	—	—	40.1
Uttar Pradesh	26.1	2.6	28.7	30.2	2.6	32.8
West Bengal	43.3	4.9	48.2	47.2	6.2	53.4
Total	40.2	3.5	43.7	45.2	4.4	49.6

Note: (1) 1965-66 figures are for the composite State of Punjab; figures for Haryana are listed separately. 1967-68 (B.E.) figures are for the new State of Punjab.

TABLE A-18: CORRELATION BETWEEN SALES TAX REVENUE PER CAPITA AND PERCENTAGE OF URBAN POPULATION IN TOTAL POPULATION OF STATE

$$r = \frac{15(31053517)-(15392)\ (26266)}{\sqrt{[15(19598016)-236913664]\ [15(52888290)-689902756]}}$$

$$r = \frac{61516483}{76817199} = .8008$$

$$t = \frac{r\sqrt{N-2}}{1-r^2} = \frac{.8008\sqrt{13}}{1-.64128064}$$

$$t = \frac{2.88736448}{.35871936} = 8.049$$

$r = .8008$
$r^2 = .6413$
$t = 8.049$

correlation highly significant (at .1 per cent level)

X	Y	X^2	Y^2	XY
3.03	16.66	91,809	2,775,556	504,798
4.54	12.85	206,116	1,651,225	583,390
5.73	8.43	328,329	710,649	483,039
6.27	6.32	393,129	399,424	396,264
7.05	7.69	497,025	591,361	542,145
7.26	14.29	527,076	2,042,041	1,037,454
7.88	16.28	620,944	2,650,384	1,282,864
8.36	17.45	698,896	3,045,025	1,458,820
11.25	22.33	1,265,625	4,986,289	2,510,125
11.51	20.13	1,324,801	4,052,169	2,316,963
13.48	15.11	1,817,104	2,283,121	2,036,828
13.94	24.45	1,943,236	5,978,025	3,408,330
14.47	26.69	2,093,809	7,123,561	3,862,043
17.06	25.76	2,910,436	6,635,776	4,394,656
22.09	28.22	4,879,681	7,963,684	6,233,789
153.92	262.66	19,598,016	52,888,290	31,053,517

TABLE A-19: CORRELATION BETWEEN SALES TAX REVENUE PER CAPITA AND STATE INCOME PER CAPITA

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2]\,[N\sum Y^2 - (\sum Y)^2]}}$$

$$r = \frac{15(5538926) - (15392)(4987)}{\sqrt{[15(19598016) - 236913664]\;[15(1740361) - 24870169]}}$$

$$r = \frac{6323986}{8395171} = .7533$$

$$t = \frac{r\sqrt{N-2}}{1 - r^2} = \frac{.7533\sqrt{13}}{1 - 56746089}$$

$$t = \frac{2.71609848}{.43253911} = 6.279$$

$r = .7533$

$r^2 = .5675$

$t = 6.279$

correlation highly significant
(at .1 per cent level)

X	Y	X^2	Y^2	XY
3.03	289	91,809	83,521	87,567
4.54	297	206,116	88,209	134,838
5.73	221	328,329	48,841	126,633
6.27	276	393,129	76,176	173,052
7.05	333	497,025	110,889	234,765
7.26	285	527,076	81,225	206,910
7.88	267	620,944	71,289	210,396
8.36	287	698,896	82,369	239,932
11.25	305	1,265,625	93,025	343,125
11.51	451	1,324,801	203,401	519,101
13.48	315	1,817,104	99,225	424,620
13.94	465	1,943,236	216,225	648,210
14.47	334	2,093,809	111,556	483,298
17.06	393	2,910,436	154,449	670,458
22.09	469	4,879,681	219,961	1,036,021
153.92	4,987	19,598,016	1,740,361	5,538,926

TABLE A-20: CORRELATION BETWEEN SALES TAX REVENUE PER CAPITA AND PERCENTAGE OF STATE INCOME NOT RESERVED FOR AGRICULTURE, ANIMAL HUSBANDRY, FORESTRY OR FISHING

$$r = \frac{15(7586081)-(15392)\ (6755)}{\sqrt{[15(19598016)-236913364]\ [15(3185771)-45630025]}}$$

$$r = \frac{9818255}{11092556} = .8851$$

$$t = \frac{r\sqrt{N-2}}{1-r^2} = \frac{.8851\ \sqrt{13}}{1-78340210}$$

$$t = \frac{3.19131656}{.21659790}$$

$r = .8851$

$r^2 = .7834$

$t = 14.734$

highly significant at 0.1 per cent level

X	Y	X^2	Y^2	XY
3.03	36.0	91,809	129,600	109,080
4.54	31.8	206,116	101,124	144,372
5.73	43.4	328,329	188,356	248,682
6.27	31.9	393,129	101,761	200,013
7.05	41.7	497,025	173,889	293,985
7.26	40.6	527,076	164,836	294,756
7.88	36.6	620,944	133,956	288,408
8.36	43.0	698,896	184,900	359,480
11.25	43.5	1,265,625	189,225	489,375
11.51	44.7	1,324,801	199,809	514,497
13.48	45.1	1,817,104	203,401	607,948
13.94	62.8	1,943,236	394,384	875,432
14.47	54.5	2,093,809	297,025	788,615
17.06	55.1	2,910,436	303,601	940,006
22.09	64.8	4,879,681	419,904	1,431,432
153.92	675.5	15,598,016	3,185,771	7,586,081

TABLE A-21 : PURCHASE TAXES BY COMMODITY (3-4)

Commodity	Andhra Pradesh	Bihar	Gujarat	Kerala	Madhya Pradesh	Madras	Mysore	Orissa	Rajasthan	Uttar Pradesh
	1	2	3	4	5	6	7	8	9	10
Livestock									LP-5	
Cardamom						FP-2				
Pepper				LP-5			FP-5			
Dried Ginger				LP-5						
Turmeric	FP-5			LP-5	5			5		
Lemongrass Oil				LP-5						
Laural Oil				LP-5						
Arecanut				LP-5			FP-5			
Nuxvomica				LP-5						
Rice								3		
Paddy	FP-5							2		
Cashewnut				LP-4			LP-5			
Chillies		FP-5								
Oil Seeds	FP-3							3		2
Groundnuts	LP-3			LP-2		FP-1½	LP-2	2		
Betel Leaves								3		
Tamarind								5		
Broom-sticks								2		

Chemical Fertilizers						5	
Chirda, Mudhi, Khai and Hudumba						1	
Prawns and Lobsters			LP-2				
Dried Fish			LP-1				
Coconut Fibre and Products			LP-2				
Castor Seeds	LP-3					2	
Coconuts	LP-3		LP-2		FP-2	2	
Millets (other than Jowar)	FP-2						
Butter and Ghee	LP-4						Ghee-3
Coriander	FP-2						
Potato		FP-5		FP-2			
Onion		FP-5					
Raw Wool							
Foodgrains					LP-3		1½
Rab							5
Jafra						5	
Gur							5
Aloe Yarn and its Products			LP-2				
Kochalam			LP-5				
Manganese	LP-3				LP-5		
Iron Ore	LP-3				LP-5		
Cromite and Kaoline Ores					LP-5		
Mica	LP-3						
Palmirah Fibre	LP-2			LP-2			
Jute	LP-3	FP-2				3	

TABLE A-21: *(Continued)*

	1	2	3	4	5	6	7	8	9	10
Cotton	LP-3					LP-2	LP-2			
Bones and Horns							LP-2			
Raw Hides and Skins	LP-3			LP-2		LP-2	LP-1	3		
Dressed Hides and Skins	LP-3			LP-2			LP-1	3		
Sugarcane (5)			10	LP-2		LP-3½	LP-15			
Rubber				LP-2			LP-2			
Folding Umbrellas						FP-6½				
Various Barks						LP-1½				

Source: K. Chaturvedi, *The Principles of Sales Tax Laws*, Revised Fourth Edition, Eastern Law House Private Limited, Calcutta, May 1967, pp. 1056-1248.

Notes: (1) LP—Last Point Purchase Tax
(2) FP—First Point Purchase Tax
(3) Number given are the *ad valorem* rates of tax.
(4) The data in this Table relate to early 1967.
(5) Purchases by sugar mills of sugarcane are taxable under a separate statute entitled the U.P. Sugarcane (Purchase Tax) Act, 1961, at a specific rate of 50 paise per quintal.

TABLE A-22: STATE EXCISE TAX REVENUE: 1951-52 TO 1967-68

	Total State Tax Revenue (Excluding States' share of Union Taxes) (Rs. in Crores)	State Excise Revenue (Rs. in Crores)	State Excise Revenue as a per cent of Total State Tax Revenue (excluding States' share of of Union Taxes) (Rs. in Crores)
1	2	3	4
1951-52	228.1	49.4	21.6
1952-53	231.1	46.3	20.0
1953-54	257.5	44.7	17.4
1954-55	265.6	44.6	16.8
1955-56	282.5	45.1	16.0
Total First Plan	1264.8	230.0	18.2
1956-57	316.3	46.4	14.6
1957-58	351.5	46.0	13.1
1958-59	317.0	46.9	14.8
1959-60	407.5	49.6	12.2
1960-61	446.0	53.1	11.9
Total Second Plan	1893.5	242.0	12.8
1961-62	484.2	58.6	12.1
1962-63	569.9	62.8	11.0
1963-64	678.6	72.9	10.7
1964-65	764.5	84.6	11.1
1965-66	841.7	96.4	11.5
Total Third Plan	3341.1	375.3	11.2
1966-67	919.0	105.3	11.5
1967-68	997.6	114.9	11.5

TABLE A-23: STATE EXCISE REVENUE FOR 1965-66 AND 1967-68 (BUDGET ESTIMATES)

	1965-66 (Accounts)			1967-68 (B.E.)		
	Total State Tax Revenue (excluding States' share of Union Taxes (Rs. in Crores)	State Excise Revenue (Rs. in Crores)	State Excise Revenue as a per cent of total State Tax Revenue (3/2)	Total State Tax Revenue (excluding States' share of Union Taxes) (Rs. in Crores)	State Excise Revenue (Rs. in Crores)	State Excise Revenue as a per cent of total State Tax Revenue (6/5)
1	2	3	4	5	6	7
Andhra Pradesh	69.26	13.74	19.8	68.09	15.00	21.7
Assam	21.61	2.16	10.0	27.22	2.56	9.4
Bihar	56.63	8.18	14.4	64.69	9.35	14.5
Gujarat	50.89	.49	1.0	68.23	.53	0.8
Jammu & Kashmir	3.16	.89	28.2	5.12	1.64	32.0
Kerala	38.56	5.01	13.0	52.23	9.05	17.3
Madhya Pradesh	48.96	8.94	18.3	62.53	10.52	16.8
Madras	83.21	.49	0.6	102.36	.55	0.5
Maharashtra	122.43	3.26	2.7	172.24	4.19	2.4
Mysore	46.45	4.04	8.7	61.59	4.38	7.1
Orissa	19.75	2.23	11.3	24.95	2.69	11.8
Punjab[1]	55.91	13.26	23.7	43.09	10.89	25.3
Haryana (formerly part of Punjab)	—	—	—	21.54	4.79	22.2
Rajasthan	35.43	7.81	22.0	46.48	10.00	23.7
Uttar Pradesh	95.29	14.23	14.9	106.01	17.83	16.8
West Bengal	94.11	11.64	12.4	106.58	10.90	10.2
Total	841.7	96.4	11.5	997.6	114.9	11.5

Source: (2) *Reserve Bank of India Bulletin*, Vol. 21, August 1967, pp. 1039-1046.
Notes: (1) 1965-66 figures are for the composite State of Punjab;
1967-68 (B.E.) figures are for the new State of Punjab (figures for Haryana are excluded).

TABLE A-24: GROWTH OF UNION AND STATE TAX REVENUE

Year	Union Tax Revenue (Rs. in Crores)	State Tax Revenue (Rs. in Crores)	Total Tax Revenue (Rs. in Crores)	(1) National Income at Current Process (Rs. in Crores)	Union Tax Revenue as Percentage of National Income (2/5)	State Tax Revenue as Percentage of National Income (3/5)	Total Revenue as Percentage of National Income (4/5)
1	2	3	4	5	6	7	8
1950-51	404.5	—	—	9530	4.2	—	—
51-52	512.9	228.2	741.1	9970	5.1	2.3	7.4
52-53	444.0	231.1	675.1	9820	4.5	2.4	6.9
53-54	420.6	257.5	678.1	10480	4.0	2.5	6.5
54-55	455.8	265.6	721.4	9610	4.7	2.8	7.5
55-56	458.1	282.5	740.6	9980	4.6	2.8	7.4
56-57	573.2	316.3	889.5	11310	5.1	2.8	7.9
57-58	695.8	351.5	1047.3	11390	6.1	3.1	9.2
58-59	715.1	317.0	1032.1	12600	5.7	2.5	8.2
59-60	812.3	407.5	1219.8	12950	6.3	3.1	9.4
60-61	908.9	446.0	1354.9	13450	6.8	3.3	10.1
61-62	1053.8	484.2	1538.0	14320	7.4	3.4	10.7
62-63	1284.0	569.9	1853.9	15180	8.5	3.8	12.2
63-64	1633.9	678.6	2312.5	17560	9.3	3.9	13.2
64-65	1820.7	764.5	2585.2	20420	8.9	3.7	12.7
65-66	2060.7	841.7	2904.4	21060	9.8	4.0	13.8
66-67	2361.5	919.0	3280.5	24160	9.8	3.8	13.6

Source: (1) Government of India, Cabinet Secretariat, Central Statistical Organisation, Department of Statistics, *Estimates of National Product* (Revised Series), 1960-61 to 1966-67 (October, 1967).

(2) *Report of the Finance Commission 1965*, Government of India Press, New Delhi, 1965, p. 232.

Notes: (1) The National income data from 1950-51 to 1959-60 is from Source (3) above, while the data from 1960-61 to 1966-67 is from source (2).
The national income figures for 1964-65 and 1965-66 are "Preliminary estimates", while the figures for 1966-67 are a "Quick estimate".

TABLE A-25: GROWTH OF UNION EXCISE AND SALES TAX REVENUE

	Revenue from Union Excises (Rs. in Crores)	Revenue from Sales Tax (Rs. in Crores)*	Total Revenue from Union Excise and Sales Tax (Rs. in Crores)	National Income at Current Prices (Rs. in Crores)	Excise Revenue as Percentage of National Income	Sales tax Revenue as Percentage of National Income	Aggregate Excise and Sales Tax Revenue as Percentage of National Income
1	2	3	4	5	6	7	8
1950-51	67.5	58.9	126.4	9530	0.7	0.6	1.3
1951-52	85.8	58.9	144.7	9970	0.9	0.6	1.5
1952-53	83.0	57.2	140.2	9820	0.8	0.6	1.4
1953-54	95.0	65.7	160.7	10480	0.9	0.6	1.5
1954-55	108.2	73.7	181.9	9610	1.1	0.8	1.9
1955-56	145.3	81.6	226.9	9980	1.5	0.8	2.3
1956-57	190.4	97.6	288.0	11310	1.7	0.9	2.6
1957-58	273.6	117.3	390.9	11390	2.4	1.0	3.4
1958-59	312.9	123.9	436.8	12600	2.5	1.0	3.5
1959-60	360.7	136.8	497.5	12950	2.8	1.1	3.9
1960-61	416.4	158.8	575.2	13453	3.1	1.2	4.3

1961-62	489.3	181.4	670.7	14315	3.4	1.3	4.7
1962-63	598.8	208.9	807.7	15179	3.9	1.4	5.3
*1963-64	729.6	268.3	997.9	17563	4.2	1.5	5.7
1964-65	801.5	318.4	1119.9	20424	3.9	1.6	5.5
1965-66	897.9	367.8	1265.7	21064	4.3	1.7	6.0
1966-67	1033.8	442.7	1476.5	24157	4.3	1.8	6.1

Sources:
(1) *Report of the Finance Commission 1965*, Manager of Publications, Delhi, 1965, p. 232.
(2) Government of India, Cabinet Secretariat, Central Statistical Organization, Department of Statistics, *Estimates of National Product* (Revised Series), 1960-61 to 1966-67 (October 1967).
(3) Table A-1
(4) Table A-2

Note:
(1) National income estimates between 1950-51 and 1959-60 are from source (1) above. National income estimates after 1959-60 are from source (2) above; the national income figures for 1964-65 and 1965-66 are 'Preliminary estimates' while the figures for 1966-67 are a 'quick estimate'.
(2) The revenue from sales tax figures are from source as above, as the figures from source (1) for the years 1950-51 to 1956-57 are incorrect.

TABLE A-26: INDEX NUMBERS OF WHOLESALE PRICES 1952-53—100

	Food Articles	Industrial Raw Materials	Manufactures	All Commodities
1950-51	112.5	130.9	103.3	111.8
1951-52				
1952-53	100.0	100.0	100.0	100.0
1953-54	100.1	107.4	100.4	101.2
1954-55	82.1	94.6	94.6	89.6
1955-56	80.6	99.0	99.7	92.5
1956-57	102.3	116.0	106.3	105.3
1957-58	106.4	116.5	108.1	108.4
1958-59	115.2	115.6	108.4	112.9
1959-60	119.0	123.7	111.7	117.1
1960-61	120.0	145.4	123.9	124.9
1961-62	120.1	142.6	126.6	125.1
1962-63	126.1	136.5	128.8	127.9
1963-64	136.8	139.5	131.1	135.3
1964-65	159.9	162.7	137.3	152.7
1965-66	168.9	189.1	149.1	165.1
1966-67	199.9	228.7	163.0	191.3
1967-68	242.2	219.1	165.5	212.4
April, 1968	233.0	199.0	162.5	204.5

Sources: (1) *Reserve Bank of India Bulletin*, May 1968, p. 720

(2) Government of India, *Economic Survey, 1965-66*, Government of India Press, New Delhi, 1966, Appendix Table 5: 1.

(3) Reserve Bank of India, *Report on Currency and Finance for the Year* 1957-58, Statement 20.

STATEMENT I

CONSUMER EXPENDITURE, AMOUNT OF TAX AND TAX AS PER CENT OF CONSUMER EXPENDITURE 1953-54

Monthly Household Expenditure Groups (Rs.)	1–50	51–100	101–150	151–300	301 & above	All households
			Rural			
Consumer Expenditure						
(Per capita, Rs. per month)	9.5	14.8	20.5	26.6	44.7	20.1
Amount of Tax						
(Per capita, Rs. per month)						
All indirect taxes	0.21	0.36	0.54	0.75	1.85	0.59
Central taxes	0.12	0.20	0.29	0.44	1.34	0.36
Central excise duties	0.06	0.11	0.15	0.22	0.49	0.17
Import duties	0.06	0.09	0.14	0.22	0.85	0.19
State taxes	0.09	0.16	0.25	0.31	0.51	0.23
State excise duties	0.05	0.07	0.12	0.10	0.15	0.09
Sales taxes (State and Central)	0.03	0.07	0.10	0.16	0.26	0.10
Sales tax on motor spirits and motor vehicles tax	0.01	0.02	0.02	0.03	0.05	0.03
Entertainment tax	—	—	—	0.01	0.02	—
Sugarcane cess	—	—	0.01	0.01	0.03	0.01
Tax as Per Cent of Consumer Expenditure (Per Cent)						
All indirect taxes	2.2	2.4	2.6	2.8	4.1	2.9
Central taxes	1.2	1.3	1.4	1.7	3.0	1.8

STATEMENT I: *(Continued)*

Monthly Household Expenditure Groups (Rs.)	1-50	51-100	101-150	151-300	301& above	All households
Central excise duties	0.6	0.7	0.7	0.8	1.1	0.8
Import duties	0.6	0.6	0.7	0.9	1.9	1.0
State taxes	1.0	1.1	1.2	1.1	1.1	1.1
State excise duties	0.6	0.5	0.6	0.4	0.3	0.5
Sales taxes (State and Central)	0.3	0.5	0.5	0.6	0.6	0.5
Sales tax on motor spirits and motor vehicles tax	0.1	0.1	0.1	0.1	0.1	0.1
Entertainment tax	—	—	—	—	—	—
Sugarcane cess	—	—	—	—	0.1	—
Urban						
Consumer Expenditure (Per capita, Rs. per month)	12.3	17.0	22.6	30.2	56.5	27.1
Amount of Tax (Per capita, Rs. per month)						
All indirect taxes	0.45	0.77	1.16	1.54	4.65	1.62
Central taxes	0.25	0.40	0.57	0.85	3.08	0.96
Central excise duties	0.15	0.24	0.32	0.46	0.96	0.42
Import duties	0.10	0.16	0.25	0.39	2.12	0.54
State taxes	0.20	0.37	0.59	0.69	1.57	0.66
State excise duties	0.02	0.08	0.18	0.13	0.11	0.11
Sales taxes (State and Central)	0.14	0.20	0.28	0.37	0.82	0.35
Sales tax on motor spirits and motor vehicles tax	0.03	0.05	0.06	0.10	0.43	0.12
Entertainment tax	0.01	0.02	0.04	0.05	0.14	0.05
Sugarcane cess	—	0.02	0.03	0.04	0.07	0.03

STATEMENT I: *(Continued)*

Monthly Household Expenditure Groups (Rs.)	1-50	51-100	101-150	151-300	301 & above	All households
Tax as Per Cent of Consumer Expenditure (Per Cent)						
All indirect taxes	3.6	4.5	5.1	5.1	8.2	5.9
Central taxes	2.0	2.3	2.5	2.8	5.4	3.5
Central excise duties	1.2	1.4	1.4	1.5	1.7	1.5
Import duties	0.8	0.9	1.1	1.3	3.7	2.0
State taxes	1.6	2.2	2.6	2.3	2.8	2.4
State excise duties	0.2	0.5	0.8	0.5	0.2	0.4
Sales taxes (State and Central)	1.1	1.2	1.2	1.2	1.5	1.3
Sales tax on motor spirits and motor vehicles tax	0.2	0.3	0.3	0.3	0.8	0.4
Entertainment tax	0.1	0.1	0.2	0.2	0.2	0.2
Sugarcane cess	—	0.1	0.1	0.1	0.1	0.1
		All-India				
Consumer Expenditure (Per capita, Rs. per month)	9.9	15.2	20.9	27.4	47.9	21.3
Amount of Tax (Per capita, Rs. per month)						
All indirect taxes	0.24	0.41	0.66	0.91	2.64	0.77
Central taxes	0.13	0.22	0.34	0.52	1.86	0.46
Central excise duties	0.07	0.12	0.18	0.26	0.61	0.21
Import duties	0.06	0.10	0.16	0.26	1.25	0.25
State taxes	0.11	0.19	0.32	0.39	0.78	0.31
State excise duties	0.05	0.07	0.14	0.11	0.14	0.09

STATEMENT I: *(Continued)*

Monthly Household Expenditure Groups (Rs.)	1-50	51-100	101-150	151-300	301 & above	All households
Sales taxes (State and Central)	0.05	0.09	0.13	0.20	0.41	0.15
Sales tax on motor spirits and motor vehicles tax	0.01	0.02	0.03	0.04	0.15	0.05
Entertainment tax	—	—	0.01	0.02	0.04	0.01
Sugarcane cess	—	0.01	0.01	0.02	0.04	0.01
Tax as Per Cent of Consumer Expenditure (Per Cent)						
All indirect taxes	2.4	2.7	3.1	3.3	5.5	3.6
Central taxes	1.3	1.4	1.6	1.9	3.9	2.1
Central excise duties	0.7	0.8	0.8	1.0	1.3	1.0
Import duties	0.6	0.6	0.8	0.9	2.6	1.1
State taxes	1.1	1.3	1.5	1.4	1.6	1.5
State excise duties	0.5	0.5	0.6	0.4	0.3	0.4
Sales taxes (State and Central)	0.5	0.6	0.6	0.7	0.8	0.7
Sales tax on motor spirits and motor vehicles tax	0.1	0.1	0.1	0.1	0.3	0.2
Entertainment tax	—	—	0.1	0.1	0.1	0.1
Sugarcane cess	—	0.1	0.1	0.1	0.1	0.1

STATEMENT II

CONSUMER EXPENDITURE, AMOUNT OF TAX AND TAX AS PER CENT OF CONSUMER EXPENDITURE

1958-59

Monthly Household Expenditure Groups (Rs.)	1—50	51—100	101—150	151—300	301 & above	All households
		Rural				
Consumer Expenditure	11.4	16.3	22.2	29.8	55.4	21.2
(Per capita, Rs. per month)						
Amount of Tax						
(Per capita, Rs. per month)						
All indirect taxes	0.29	0.60	0.92	1.44	3.84	0.93
Central taxes	0.20	0.40	0.65	1.00	2.77	0.65
Central excise duties	0.15	0.30	0.49	0.74	1.81	0.48
Import duties	0.05	0.09	0.15	0.23	0.90	0.16
Railway passenger fares tax	—	0.01	0.01	0.03	0.06	0.01
State taxes	0.09	0.20	0.27	0.44	1.07	0.28
State excise duties	0.03	0.07	0.07	0.10	0.30	0.08
Sales taxes (State and Central)	0.05	0.10	0.13	0.20	0.52	0.13
Sales tax on motor spirits and motor vehicles tax	0.01	0.02	0.05	0.10	0.18	0.05
Entertainment tax	—	—	0.01	0.02	0.03	0.01
Sugarcane cess	—	0.01	0.01	0.02	0.04	0.01
Tax as Per Cent of Consumer Expenditure (Per Cent)						
All indirect taxes	2.5	3.6	4.1	4.8	6.9	4.4
Central taxes	1.7	2.4	2.9	3.3	5.0	3.1
Central excise duties	1.3	1.8	2.2	2.5	3.3	2.2

STATEMENT II: (*Continued*)

Monthly Household Expenditure Groups (Rs.)	1—50	51—100	101—150	151—300	301 & above	All house-holds
Import duties	0.4	0.5	0.6	0.7	1.6	0.8
Railway passenger fares tax	—	0.1	0.1	0.1	0.1	0.1
State taxes	0.8	1.2	1.2	1.5	1.9	1.3
State excise duties	0.3	0.4	0.3	0.3	0.5	0.4
Sales taxes (State and Central)	0.4	0.6	0.6	0.7	0.9	0.6
Sales tax on motor spirits and motor vehicles tax	0.1	0.1	0.2	0.3	0.3	0.2
Entertainment tax	—	—	—	0.1	0.1	—
Sugarcane cess	—	0.1	0.1	0.1	0.1	0.1
Urban						
Consumer Expenditure						
(Per capita, Rs. per month)	16.3	20.2	26.0	33.3	64.8	29.2
Amount of Tax						
(Per capita, Rs. per month) All indirect taxes	0.94	1.45	2.09	2.99	8.96	2.70
Central taxes	0.62	0.88	1.30	1.89	5.96	1.74
Central excise duties	0.48	0.65	0.98	1.37	3.44	1.18
Import duties	0.13	0.20	0.28	0.45	2.33	0.50
Railway passenger fares tax	0.01	0.03	0.04	0.07	0.19	0.06
State taxes	0.32	0.57	0.79	1.10	3.00	0.96
State excise duties	0.02	0.06	0.09	0.13	0.49	0.13
Sales taxes (State and Central)	0.21	0.36	0.48	0.64	1.47	0.54
Sales tax on motor spirits and motor vehicles tax	0.06	0.08	0.12	0.17	0.70	0.17
Entertainment tax	0.02	0.05	0.07	0.12	0.27	0.09
Sugarcane cess	0.01	0.02	0.03	0.04	0.07	0.03

STATEMENT II: *(Continued)*

Monthly Household Expenditure Groups (Rs.)	1—50	51—100	101—150	151—300	301 & above	All households
3. Tax as Per Cent of Consumer Expenditure (Per Cent)						
All indirect taxes	5.8	7.1	8.0	9.0	13.8	9.3
Central taxes	3.8	4.3	5.0	5.7	9.2	6.0
Central excise duties	2.9	3.2	3.8	4.1	5.3	4.1
Import duties	0.8	1.0	1.0	1.4	3.6	1.7
Railway passenger fares tax	0.1	0.1	0.2	0.2	0.3	0.2
State taxes	2.0	2.8	3.0	3.3	4.6	3.3
State excise duties	0.1	0.3	0.3	0.4	0.8	0.4
Sales taxes (State and Central)	1.3	1.8	1.9	1.9	2.2	1.9
Sales tax on motor spirits and motor vehicles tax	0.4	0.4	0.5	0.5	1.1	0.6
Entertainment tax	0.1	0.2	0.2	0.4	0.4	0.3
Sugarcane cess	0.1	0.1	0.1	0.1	0.1	0.1
All-India						
1. Consumer Expenditure						
(Per capita, Rs. per month)	12.1	17.1	22.9	31.0	58.4	22.8
2. Amount of Tax						
(Per capita, Rs. per month) All indirect taxes	0.38	0.74	1.17	1.84	5.43	1.30
Central taxes	0.26	0.49	0.79	1.24	3.75	0.87
Central excise duties	0.19	0.37	0.60	0.91	2.31	0.62

STATEMENT II: (*Continued*)

Monthly Household Expenditure Groups (Rs.)	1—50	51—100	101—150	151—300	301 & above	All households
Import duties	0.06	0.11	0.17	0.29	1.34	0.23
Railway passenger fares tax	0.01	0.01	0.2	0.04	0.10	0.02
State taxes	0.12	0.25	0.38	0.60	1.68	0.43
State excise duties	0.02	0.05	0.07	0.10	0.36	0.09
Sales taxes (State and Central)	0.07	0.14	0.20	0.31	0.81	0.22
Sales tax on motor spirits and motor vehicles tax	0.02	0.04	0.07	0.11	0.35	0.08
Entertainment tax	0.01	0.01	0.02	0.05	0.11	0.03
Sugarcane cess	—	0.01	0.02	0.03	0.05	0.01
3. Tax as Per Cent of Consumer Expenditure (Per Cent)						
All indirect taxes	3.1	4.3	5.1	5.9	9.3	5.7
Central taxes	2.1	2.8	3.4	4.0	6.4	3.8
Central excise duties	1.5	2.1	2.6	3.0	3.9	2.7
Import duties	0.5	0.6	0.7	0.9	2.3	1.0
Railway passenger fares tax	0.1	0.1	0.1	0.1	0.2	0.1
State taxes	1.0	1.5	1.7	1.9	2.9	1.9
State excise duties	0.2	0.3	0.3	0.3	0.6	0.4
Sales taxes (State and Central)	0.5	0.8	0.9	1.0	1.4	1.0
Sales tax on motor spirits and motor vehicles tax	0.2	0.2	0.3	0.3	0.6	0.3
Entertainment t	0.1	0.1	0.1	0.2	0.2	0.1
Sugarcane cess	—	0.1	0.1	0.1	0.1	0.1

Bibliography

BOOKS

ADLER, JOHN H., SCHLESINGER, EUGENE R. and OLSON, ERNEST C.
Public Finance and Economic Development in Guatemala, Stanford University Press, Stanford, California, 1952

AGARWALA, S.K.
Law and Practice Relating to Central Sales Tax Act, Fifth edition, Central Law Agency, Allahabad, 1967

AGARWALA, S.N.
Indian Public Finance, Vora & Co. Publishers Private Ltd., Bombay, 1967

BHARGAVA, R.N.
Indian Public Finances, George Allen and Unwin Ltd., London, 1962

BRYDEN, MARION H.
The Costs of Tax Compliance, Canadian Tax Foundation, Toronto, Canada, 1961

CHATURVEDI, KHARAG RAM
The Principles of Sales Tax Laws, Fourth revised edition, Eastern Law House Private Ltd., Calcutta, 1967

CHELLIAH, RAGA J.
Fiscal Policy in Underdeveloped Countries, George Allen and Unwin Ltd., London, 1960

COLM, GERHARD
Essays in Public Finance and Fiscal Policy, Oxford University Press, New York, 1955

DE VITI DE MARCO, ANTONIO
First Principles of Public Finance, Harcourt Brace and Co., Inc., New York, 1936

DUE, JOHN F.
The General Manufacturers Sales Tax in Canada, Canadian Tax Foundation, Toronto, 1951

DUE, JOHN F.
Sales Taxation, University of Illinois Press, Urbana, 1957

DUE, JOHN F.
Taxation and Economic Development in Tropical Africa, The M.I.T. Press, Cambridge, Massachusetts, 1963

*This bibliography is primarily a listing of works actually cited in the text; however, a few useful items not cited are also included.

DUE, JOHN F.
Provincial Sales Taxes, Revised edition, Canadian Tax Foundation, Toronto, Ontario, 1964

EATON, A. KENNETH
Essays in Taxation, Canadian Tax Foundation, Toronto, Canada, 1966

GALBRAITH, JOHN K.
The Affluent Society, Houghton Mifflin Company, Boston, 1958

GHOSH, A.B.
Sales Tax in India, Ranjit Printers & Publishers, Delhi, 1954

GOFFMAN, IRVING JAY
The Burden of Canadian Taxation, Canadian Tax Foundation, Toronto, 1962

GOODE, RICHARD
The Individual Income Tax, The Brookings Institution, Washington, D.C., 1964

GOPAL, M.H.
Mauryan Public Finance, George Allen and Unwin Ltd., London, 1935

GOPAL, M.H.
Studies in Indian Public Finance, Rao and Raghavan, Mysore, 1963

HAIG, ROBERT M. AND SHOUP, CARL S.
The Sales Tax in the American States, Columbia University Press, New York, 1934

HART, ALBERT G. AND BROWN E. CARY
Financing Defense: Federal Tax and Expenditure Policies, The Twentieth Century Fund, New York, 1951

INDIAN LAW INSTITUTE
Interstate Trade Barriers and Sales Tax Laws in India, N.M. Tripathi Private Ltd., Bombay, 1962

INTERNATIONL BANK FOR RECONSTRUCTION AND DEVELOPMENT
The Economic Development of Kenya, The John Hopkins Press, Baltimore, 1963

JOINT TAX PROGRAM, OAS/IDB
Fiscal Survey of Panama, The John Hopkins Press, Baltimore, Maryland, 1964

KALDOR, NICHOLAS
Indian Tax Reform: Report of a Survey, Department of Economic Affairs, Ministry of Finance, New Delhi, 1956

KALDOR, NICHOLAS
An Expenditure Tax, George Allen and Unwin Ltd., London, 1955

KEYNES, JOHN MAYNARD
The General Theory of Employment, Interest and Money, Harcourt Brace and World, Inc., New York, 1936

KHER, S.P.
The Finances of the Mysore State, Popular Prakashan, Bombay, 1967

KIRSCHEN, E.S. *et al.*
Economic Policy in Our Times, Vol. 1, North-Holland Publishing Company, Amsterdam, 1964

LEWIS, W.A.
The Theory of Economic Growth, Richard D. Irwin, Inc., Homewood, Illinois, 1955

LOKANATHAN, P.S.
Report on the Simplification and Improvement of the Sales Tax System in Madras, Government Press, Madras, 1957

MAXWELL, JAMES A.
Fiscal Policy, Henry Holt and Company, New York, 1955

MILL, JOHN S.
Principles of Political Economy, Longmans, Green and Co., London, 1883

MUSGRAVE, RICHARD A.
The Theory of Public Finance, McGraw-Hill Book Company, New York, 1959

NATIONAL BUREAU OF ECONOMIC RESEARCH AND THE BROOKINGS INSTITUTION
The Role of Direct and Indirect Taxes in the Federal Revenue System, Princeton University Press, Princeton, 1964

NATIONAL COUNCIL FOR APPLIED ECONOMIC RESEARCH
Distribution of National Income by States 1960-1, National Council for Applied Economic Research, New Delhi, 1965

ORGANIZATION FOR EUROPEAN ECONOMIC CO-OPERATION
The Influence of Sales Taxes on Productivity, European Productivity Agency of the Organization for European Economic Co-operation, Paris, 1958

OSTER, CLINTON V.
State Retail Sales Taxation, Bureau of Business Research, College of Commerce and Administration, Ohio State University, Columbus, Ohio, 1957

PECHMAN, JOSEPH A.
Federal Tax Policy, The Brookings Institution, Washington, D.C., 1966

PERSHAD, H.
Indian Taxation During and After World War II, Allied Publishers Private Limited, Bombay, 1964

PIGOU, A.C.
A Study in Public Finance, Third revised edition, Macmillan & Co. Ltd., London, 1952

PREST, A.R.
Public Finance, Quadrangle Books, Chicago, 1960

PREST, A.R.
Public Finance in Underdeveloped Countries, Weidenfeld and Nicolson, London, 1962

SAHOTA, G.S.
Indian Tax Structure and Economic Development, Asia Publishing House, New York, 1961

Sales Tax System in Andhra Pradesh, National Council for Applied Economic Research, New Delhi, 1963.

SANDERS, THOMAS H.
Effects of Taxation on Executives, Bureau of Business Research, Harvard University, Boston, 1951

SELIGMAN, EDWIN R.A.
Shifting and Incidence of Taxation, 4th edition, Columbia University Press, New York, 1921

SHOUP, CARL S. *et al.*
The Fiscal System of Venezuela, The John Hopkins Press, Baltimore, 1959

SIMONS, HENRY C.
Federal Tax Reform, University of Chicago Press, Chicago, 1950

SINGH, D. BRIGHT
Economics of Development: With Special Reference to India, Asia Publishing House, Bombay, 1966

SMITH, ADAM
An Inquiry into the Nature and Causes of the Wealth of Nations, Modern library edition, Random House, Inc., New York, 1937

SMITH, DAN THROOP
Federal Tax Reform, McGraw-Hill Book Company, Inc., New York, 1961

SULLIVAN, CLARA K.
The Tax on Value Added, Columbia University Press, New York, 1965

Tax Overlapping in the United States 1964, The Advisory Commission on Intergovernmental Relations, Washington, D.C., July 1964

TRIPATHY, RAM NIRANJAN
Fiscal Policy and Economic Development in India, The World Press Private Ltd., Calcutta, 1958

TRIPATHY, R.N.
Public Finance in Under-developed Countries, The World Press Private Ltd., Calcutta, 1964

UNITED NATIONS, ECONOMC COMMISSION FOR LATIN AMERICA
Economic Survey of Latin America 1955, United Nations, New York, 1956

VON MERING, OTTO
The Shifting and Incidence of Taxation, The Blackiston Co., Philadelphia, 1942

WALLICH, HENRY C. AND ADLER, JOHN H.
Public Finance in a Developing Country: El Salvador—A Case Study, Harvard University Press, Cambridge, Massachusetts, 1951

YOCUM, JAMES C.
Retailers' Costs of Sales Tax Collection in Ohio, Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus, Ohio, 1961

YOINGCO, ANGEL Q. AND TRINIDAD, RUBEN F.
Fiscal Systems and Practices in Asian Countries, Frederick A. Praeger, New York, 1968

ARTICLES

AHMED, MAHFOOZ
'Cost of Tax Collection in India', *Economic and Political Weekly*, Vol. 3, No. 7 (February 17, 1968)

ANJANAIAH, N.
'Money Burden of Excise Duties', *Economic Times*, Vol. 6 (May 9, 1966), pp. 5-6

BHARGAVA, P.K.
'Sales Tax: The States' Milk Cow', *Eastern Economist*, Vol. 49 (October 20, 1967)

BREAK, GEORGE F.
'Income Taxes and Incentives to Work: An Empirical Study', *American Economic Review*, Vol. 47, No. 4 (September 1957)

BROWN, E. CARY
'Analyses of Consumption Taxes in Terms of the Theory of Income Determination', *American Economic Review*, Vol. 40 (1950), pp. 74-90

BROWN, HARRY GUNNISON
'The Incidence of a General Output or a General Sales Tax', *Journal of Political Economy*, Vol. 47 (April 1939), pp. 254-62; reprinted in *American Economic Association Readings in the Economics of Taxation*, Richard A. Musgrave and Carl S. Shoup (eds.), Richard D. Irwin, Inc., Homewood, Illinois, 1959, pp. 330-9

CARVER, THOMAS N.
'The Shifting of Taxes', *Yale Review*, Vol. 5 (November 1896), pp. 258-71

CHELLIAH, R.J.
'Elasticity and Rate of Growth of State Taxes', in *Mobilisation of State Resources*, M.D. Joshi (ed.), Impex India, New Delhi, 1967, pp. 35-58

CHELLIAH, R.J.
'Fiscal Policy must be Reoriented', *Economic and Political Weekly*, Vol. 2 (May 20, 1967), pp. 919-24

DAVIES, DAVID G.
'An Emperical Test of Sales Tax Regressivity,' *Journal of Political Economy*, Vol. 69 (February 1959), pp. 72-8

DE MARCO ERVITI, HUGO A.
Comments on 'Administrative Criteria in the Establishment of Sales and Excise Tax Structure', in *Problems of Tax Administration in Latin America*, The John Hopkins Press, Baltimore, Maryland, 1965, pp. 436-41

DOSSER, DOUGLAS
'Indirect Taxation and Economic Development', in *Government Finance and Economic Development*, Alan T. Peacock and Gerald Hauser (eds.), Organization for Economic Co-operation and Development, Paris, 1965, pp. 127-55

DUE, JOHN F.
'Retail Sales Taxation in Theory and Practice', *National Tax Journal*, Vol. 3 (1950), pp. 314-25

DUE, JOHN F.
'American and Canadian Experience with Sales Tax', *Journal of Finance* (September 1952)

DUE, JOHN F.
'Toward a General Theory of Sales Tax Incidence', *Quarterly Journal of Economics*, Vol. 67 (May 1953), pp. 253-66

DUE, JOHN, F.
'Lessons from Canadian Experience', in *Consumption Tax and Tax Reform*, National Industrial Conference Board, Inc., New York, 1953, pp. 43-9

DUE, JOHN F.
'Canada's Experience with the Manufacturers' Sales Tax', *Journal of Business*, Vol. 27 (1954), pp. 243-51

DUE, JOHN F.
'The Effects of the 1954 Reduction in Federal Excise Taxes upon the List Prices of Electrical Appliances', *National Tax Journal*, Vol. 7 (September 1954), 22-7

DUE, JOHN F.
'Administrative Criteria in the Establishment of Sales and Excise Tax Structure', in *Problems of Tax Administration in Latin America*, The John Hopkins Press, Baltimore, Maryland, 1965, pp. 413-64

DUE, JOHN F.
'Sales Taxes', *Report of Proceedings of the Nineteenth Tax Conference*, Canadian Tax Foundation, Toronto, Canada, 1967, pp. 294-8

DUE, JOHN F.
'Comment', *Quarterly Journal of Economics*, Vol. 82 (May 1968), pp. 340-3

'Excerpt, from Report of Royal Commisson on Taxation', *Canadian Tax Journal*, Vol. 15, No. 2 (March-April 1967), pp. 81-203

FRIEDLAENDER, ANN F.
'Indirect Taxes and Relative Prices', *Quarterly Journal of Economics*, Vol. 81 (February 1967), pp. 125-39

'REPLY'
Quarterly Journal of Economics, Vol. 82 (May 1968), pp. 344-5

GOODE, RICHARD
'Anti-Inflationary Implications of Alternate Forms of Taxation', *American Economic Review*, Vol. 42 (1952), pp. 147-60

GOODE, RICHARD
'Taxation of Savings and Consumption in Underdeveloped Countries', *National Tax Journal*, Vol. 14 (December 1961), pp. 305-21

GOODE, RICHARD
'Income, Consumption, and Property as Bases of Taxation', *American Economic Review*, Vol. 52 (May 1962), pp. 327-34

GROVES, HAROLD M.
Financing Government, Henry Holt and Company, New York, 1954

HAIG, ROBERT M.
'The Costs to Business Concerns of Compliance with Tax Law', *The Management Review*, November, 1935, pp. 323-33.

HANSEN, BENT
'Tax Policy and Mobilisation of Savings', in *Government Finance and Economic Development*, Alan T. Peacock and Gerald Hauser (eds.), Organization for Economic Co-operation and Development, Paris, 1965, pp. 143-56

HANSEN, REED R.
'An Empirical Analysis of the Retail Sales Tax with Policy Recommendations' *National Tax Journal*, Vol. 15 (March 1962), pp. 1-13

HELLER, WALTER W.
'Fiscal Policies for Under-developed Countries', in United Nations Technical Assistance Administration, *Taxes and Fiscal Policy in Under-developed Countries* (New York, 1954), pp. 1-22; reprinted in *Readings on Taxation in Developing Countries*, Bird, Richard, and Oldman, Oliver (eds.), John Hopkins Press, Baltimore, 1964, pp. 3-30

HENDERSON, A.M.
'The Case for Indirect Taxation', *Economic Journal*, Vol. 58 (December 1948), pp. 538-57

HICKS, URSULA K.
'The Terminology of Tax Analysis', *Economic Journal*, Vol. 56 (March 1946); reprinted in A.E.A. *Readings in the Economics of Taxation*, Richard D. Irwin Inc., Homewood, Illinois, 1959, pp. 214-26

HOTELLING, HAROLD
'The Relation of Prices to Marginal Costs in an Optimum System', *Econometrica*, Vol. 7 (1939)

'Indirect Taxes—Retrospect and Prospects', *Tata Quarterly*, Vol. 16 (October 1959)

JOSEPH, M.F.W.
'The Excess Burden of Indirect Taxation', *Review of Economic Studies*, Vol. 6, No. 3 (June 1939), pp. 226-31

KALDAR, NICHALAS
'Will Underdeveloped Countries Learn to Tax ?', *Foreign Affairs*, January 1963, pp. 410-9

LACKDAWALA, D.T.
'Expansion of Tax Revenues', in *Papers Relating to the Formulation of the Second Five Year Plan*, Government of India, Planning Commission, 1955, pp. 499-503

LEVIN, JONATHAN
'Will Sales Taxes Work in Developing Countries', *Finance and Development*, Vol. 5 (March 1968), pp. 19-23

LEWIS, STEPHEN R. JR.
'Aspects of Fiscal Policy and Resource Mobilization in Pakistan', *Pakistan Development Review*, Vol. 4 (Summer 1964), pp. 261-82

LEWIS, W.A.
'Economic Development with Unlimited Supplies of Labour', reprinted in *The Economics of Underdevelopment*, A.N. Agarwala and S.P. Singh (eds.), Oxford University Press, New York, 1963

LITTLE, I.M.D.
'Direct Versus Indirect Taxes', *Economic Journal*, Vol. 61 (September 1951), pp. 577-84

LITTLE, I.M.D.
'Tax Policy and the Third Plan', in *Pricing and Fiscal Policies*, P.N. Rosenstein-Rodan (ed.), The M.I.T. Press, Cambridge, Massachusetts, 1964, pp. 30-76

LONG, CLARENCE D.
'Impact of the Federal Income Tax on Labor Force Participation', in U.S. Congress, Joint Committee on the Economic Report, *Federal Tax Policy for Economic Growth and Stability*, 84th Congress, 1st Session, U.S. Government Printing Office, Washington D.C., 1955, pp. 153-66

MARTIN, JAMES W.
'Costs of Administrations: Example of Compliance Expenses', *Bulletin of the National Tax Association*, April 1944, pp. 194-205

MC GREW, JAMES W.
'Effect of Food Exemption on the Incidence of a Retail Sales Tax', *National Tax Journal*, Vol. 2 (1949), pp. 362-7

MILLS, A.P.
'Canadian Experience with Broad-Based Excise Taxation,' in *Alternatives to Present Federal Taxes*, Tax Institute of America, Princeton, 1964, pp. 111-21

MUSGRAVE, RICHARD A.
'Estimating the Distribution of the Tax Burden', *Problems of Tax Administration in Latin America*, The John Hopkins Press, Baltimore, Maryland, 1965, pp. 31-75

MUSGRAVE, RICHARD A.
'Excises in the Federal Tax Structure—A General Appraisal', in U.S. Congress, Committee on Ways and Means, *Excise Tax Compendium*, U.S. Government Printing Office, Washington, 1964

MUSGRAVE, RICHARD A and RICHMAN, PEGGY BREWER
'Allocation Aspects, Domestic and International', in *The Role of Direct and Indirect Taxes in the Federal Revenue System*, Princeton University Press, Princeton, 1964

NACHIKETA
'Commodity Taxation in India: II-Practical Measures for Reform', *Financial Express*, Vol. 1 (December 8, 1961), p. 4

NAHARRO, JOSE MARIA
'Production and Consumption Taxes and Economic Development', in *Fiscal Policy for Economic Growth in Latin America*, The John Hopkins Press, Baltimore, Maryland, 1965, pp. 273-325

PAREKH, H.T.
'Some Aspects of Export Promotion', *Commerce* (Annual Number), Vol. 103 (December 1961), pp. A 101-2

PECHMAN, JOSEPH A.
'A Summing Up', *Report of Proceedings of the Nineteenth Tax Conference*, Canadian Tax Foundation, Toronto, Canada, 1967, pp. 434-52

PEPPER, H.W.T.
'General Notes on Turnover Taxation, Especially in Respect of Developing Countries', *Bulletin for International Fiscal Documentation*, Vol. 20 (February 1966), pp. 67-82 and (March 1966), pp. 103-14

POOLE, KENYON E.
'The Fiscal Performance of Indirect Taxation: An Evaluation', *Queen's University Papers in Taxation and Public Finance, No. 3*, Canadian Tax Foundation, Toronto, 1966, pp. 17-43

RADHAKRISHNAN, P.N. and RANGARAJAN, C.
'Price Effects of Commodity Taxation', *Economic and Political Weekly*, Vol. 2 (November 11, 1967), pp. 1981-5

RADHU, GHULAM MOHAMMAD
'The Rate Structure of Indirect Taxes in Pakistan', *Pakistan Development Review*, Vol. 4 (Autumn 1964), pp. 527-51

RADHU, GHULAM MOHAMMAD
'The Relation of Indirect Tax Changes to Price Changes in Pakistan', *Pakistan Development Review*, Vol. 5 (1965), pp. 54-63

ROLPH, EARL R.
'A Proposed Revision of Excise Tax Theory', *Journal of Political Economy*, Vol. 60 (April 1952), pp. 102-7

ROLPH, EARL R. and BREAK, GEORGE
'The Welfare Aspects of Excise Taxes', *Journal of Political Economy*, Vol. 57 (February 1949), pp. 46-54; reprinted in *American Economic Association Readings in the Economics of Taxation*, Richard Musgrave and Carl Shoup (eds.), Richard A. Irwin, Homewood, Illinois, 1959, pp. 110-22

'Sales and Excise Taxes and Duties', Excerpts from Report of the Royal Commission on Taxation, *Canadian Tax Journal*, Vol. 15, No.2 (March-April 1967), pp. 195-7

SARKAR, SUNIL RANJAN
'Sales Tax has a History in India', *Indian Journal of Economics*, Vol. 34 (October 1953), pp. 93-114

SARKAR, SUNIL RANJAN
'Applications of Statistics to Some Problems of Sales Tax', *Indian Economic Journal*, Vol. 4 (January 1957), pp. 248-65

SINGH, D.R.
'Substitution of Excise Duty for Sales Tax: Its Impact on State Revenues', *Economic Weekly*, Vol. 16 (July 11, 1964), pp. 1127-36

SMITH, DAN THROOP
'Rates, Allowances and Averaging'. *Report of Proceedings of the Nineteenth Tax Conference*, Canadian Tax Foundation, Toronto, Canada, 1967, pp. 24-38

SULLIVAN, CLARA K.
'Concepts of Sales Taxation', in *Readings on Taxation in Developing Countries*, Bird, Richard, and Oldman, Oliver (eds.), John Hopkins Press, Baltimore, 1964, pp. 319-58

TARAPOREVALA, RUSTAM JAL
'Reforming the Tax Structure to Protmote Economic Growth,' *Capital*, Supplement, Vol. 147 (December 21, 1961), pp. 55-61

THORN, RICHARD S.
'The Evalution of Public Finances During Economic Development', *The Manchester School of Economic and Social Studies*, Vol. 35 (January 1967), pp. 19-54

UNITED NATIONS, ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
'Taxation and Economic Development in Asian Countries', *Economic Bulletin for Asia and the Far East*, Vol. 4 (November 1953), pp. 1-15

UNITED NATIONS, ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
'Taxation and Development of Agriculture in Under-developed Countries, with Special Reference to Asia and the Far East', *Economic Bulletin for Asia and the Far East*, Vol. 9, pp. 2-16

UNITED NATIONS, ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST (PREPARED BY R.J. CHELLIAH)
'Tax Potential and Economic Growth in the Countries of the ECAFE Region', *Economic Bulletin For Asia and the Far East*, Vol. 17 (September 1966), pp. 29-48

WALD, H.P.
'The Classial Indictment of Indirect Taxation', *Quarterly Journal of Economics*, Vol. 59 (August 1945), pp. 582-91

WALKER, DAVID
'The Direct-Indirect Tax Problem: Fifteen Years of Controversy', *Public Finance*, Vol. 10 (November 1955), pp. 153-76

PAMPHLETS

Federation of Indian Chambers of Commerce and Industry
Hand Book on Sales Tax, New Delhi, 1954

Federation of Indian Chambers of Commerce and Industry
Memorandum on Sales Tax, September 1952

Federation of Indian Chambers of Commerce and Industry
Sales Tax, Published by the Federation, New Delhi, November 1960

Federation of Indian Chambers of Commerce and Industry
Sales Tax—A Re-Appraisal, Published by the Federation, New Delhi, December 1958

LOKANATHAN, P.S.
Sales Tax Systems in Andhra Pradesh : A Review, National Council for Applied Economic Research, New Delhi, 1963

PREST, A.R.
The Future of Purchase Tax, Hobart Paper 8, Institute of Economic Affairs, 1961

CENTRAL GOVERNMENT PUBLICATIONS AND REPORTS

Central Excise Tariff (as on 9th September 1967), unpublished, Statistics and Intelligence Branch (Central Excise), New Delhi, 1967

Explanatory Memorandum: General Budget, (for various years between 1956-57 and 1968-69), Government of India, New Delhi.

Final Report on Rationalisation and Simplification of the Tax Structure, (prepared by S. Bhoothalingam), Government of India Press, New Delhi, 1968

Finance Minister's Speeches, (introducing the Budget for various years between 1953-54 and 1968-69), Government of India, New Delhi

'Finances of State Governments—1966-67', *Reserve Bank of India Bulletin*, Vol. 20 (May 1966), pp. 461-507

'Finances of State Governments, 1967-68', *Reserve Bank of India Bulletin*, Vol. 21 (August 1967), pp. 1019-66

'Finances of State Governments, 1968-69', *Reserve Bank of India Bulletin*, Vol. 22 (May 1968), pp. 586-93

Incidence of Indirect Taxation, Department of Economic Affairs, Ministry of Finance, New Delhi, 1961

Indian Customs and Central Excise Tariff, Fifty-fifth Issue, Vol. 2, Department of Commercial Intelligence and Statistics, Calcutta (undated)

'Memorandum by the Panel of Economists', *Papers Relating to the Formulation of the Second Five Year Plan*, Government of India, Planning Commission, 1955, pp. 1-18

Report of the Central Excise Reorganisation Committee, 1963, Government of India Press, Nasik, 1963

Report of the Committee on Sales Tax, Ministry of Commerce, Faridabad, 1964

Report of the Finance Commission 1957, Government of India Press, New Delhi, 1958

Report of the Finance Commission 1961, Government of India Press, New Delhi, 1962

Report of the Finance Commission 1965, Government of India Press, New Delhi, 1965

Report of the Import and Export Policy Committee, (A. Ramaswami Mudaliar, Chairman), Ministry of Commerce and Industry, New Delhi, 1962

Report of the Prohibition Enquiry Committee, Government of India, Planning Commission, Delhi, 1955

Report of the Study Team on Prohibition, Vols. I-II, Government of India, Planning Commission, 1964

Report of the Taxation Enquiry Commission, 1953-54, Vols. I-IV, Department of Economic Affairs, Ministry of Finance, New Delhi, 1955

Report on Currency and Finance, (for various years between 1955-57 and 1966-67), Government of India, Reserve Bank, Bombay, 1957-67

Second Five Year Plan, Government of India, Planning Commission, 1956

Third Five Year Plan, Government of India, Planning Commission, Government of India Press, Delhi, 1961

STATE GOVERNMENT PUBLICATIONS AND REPORTS

Government of Andhra Pradesh
Report of the Andhra Sales Tax Enquiry Committee, 1956, Andhra Government Press, Kurnool, 1956

Government of Bombay
Report of the Sales Tax Enquiry Committee 1957-58, Government Central Press, Bombay State, Bombay, 1958

Government of Gujarat
Report of the Sales Tax Enquiry Committee 1967 (Gujarat), Government Press, Baroda, 1968

Government of Madhya Pradesh
Report of the Madhya Pradesh Prohibition Enquiry Committee 1951, Government Printing Press, Nagpur, 1952

Government of Mysore
Report of the Mysore Finance Enquiry Committee—1956, Vols. I—II, Government Press, Bangalore, 1956

Government of Mysore
Report of the Sales Tax Enquiry Committee, (K. Manjappa, Chairman), Government of Mysore, Bangalore, 1959

Government of Mysore
Report of the Mysore Resources and Economy Committee 1962, (A.G. Ramachandra Rao, Chairman), Government Press, Bangalore, 1962

Government of Orissa
Orissa Taxation Enquiry Committee Report, Government of Orissa, Finance Department, 1961

Government of Rajasthan
Report of the Rajasthan Finance Enquiry Committee 1958, Government Central Press, Jaipur, 1958

Hyderabad Government
Economic Adviser, Finance Department, *A Review of Hyderabad Finance*, Government Press, Hyderabad, 1951

FOREIGN GOVERNMENT PUBLICATIONS AND REPORTS

Government of Canada
Report of the Royal Commission on Taxation, Carter Commission, Vol. 5, Part A (Sales and Excise Taxes and Duties), Queen's Printer, Ottawa, Canada, 1966, pp. 1-92

Government of Pakistan
Taxation Enquiry Committee Report, Vol. I, Government of Pakistan Press, Karachi, 1963

Index

D

E

N

O

S